

DGSE COMPANIES INC  
Form 10-Q  
November 13, 2008

**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, 2008**

**or**

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

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

**Commission File Number 1-11048**

**DGSE Companies, Inc.**

*(Exact name of registrant as specified in its charter)*

**Nevada**

*(State or other jurisdiction of  
incorporation or organization)*

**88-0097334**

*(I.R.S. Employer  
Identification No.)*

**11311 Reeder Road**

**Dallas, Texas 75229**

**(972) 484-3662**

*(Address, including zip code, and telephone  
number, including area code, of registrant's  
principal executive offices)*

**NONE**

*(Former name, former address and former  
fiscal year, if changed since last report)*

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

YES  NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
YES o NOp

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of November 12, 2008:

| 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**

|   | <b>September 30,<br/>2008<br/>Unaudited</b> | <b>December 31,<br/>2007</b> |
|---|---|------------------------------|
| <b>ASSETS</b>   |   |                              |
| Current Assets:   |   |                              |
| Cash and cash equivalents   | \$ 1,934,513                                | \$ 536,548                   |
| Trade receivables   | 4,364,901                                   | 3,792,474                    |
| Auction advances  | 482,391                                     | 747,000                      |
| Inventories   | 15,099,533                                  | 12,975,782                   |
| Prepaid expenses  | 241,023                                     | 459,486                      |
| Prepaid federal income tax  | —   | 59,341                       |
| Total current assets  | 22,122,361                                  | 18,570,631                   |
| Marketable securities – available for sale  | 20,532                                      | 61,769                       |
| Property and equipment, net   | 4,814,086                                   | 4,193,869                    |
| Deferred income taxes   | 1,717,131                                   | 1,805,205                    |
| Goodwill  | 9,035,380                                   | 8,952,181                    |
| Intangible assets   | 2,499,840                                   | 2,521,340                    |
| Other long-term receivable  | 385,383                                     | 444,383                      |
| Other assets  | 193,703                                     | 309,836                      |
|   | \$ 40,788,416                               | \$ 36,859,214                |
| <b>LIABILITIES</b>  |   |                              |
| Current Liabilities:  |   |                              |
| Notes payable   | \$ 187,463                                  | \$ 187,467                   |
| Current maturities of long-term debt  | 501,631                                     | 501,631                      |
| Accounts payable – trade  | 388,548                                     | 1,069,194                    |
| Federal income tax payable  | 199,554                                     | —                            |
| Accrued expenses  | 2,484,957                                   | 1,018,003                    |
| Customer deposits   | 867,588                                     | 315,437                      |
| Total current liabilities   | 4,629,741                                   | 3,091,732                    |
| Long-term debt, less current maturities   | 14,734,553                                  | 13,489,901                   |
|   | 19,364,294                                  | 16,581,633                   |
| <b>STOCKHOLDERS' EQUITY</b>   |   |                              |
| Common stock, \$.01 par value; 30,000,000 shares authorized; 9,833,635 and 9,490,357 shares issued and outstanding at the end of each period in 2008 and 2007, respectively | 98,337                                      | 94,904                       |
| Additional paid-in capital  | 18,503,353                                  | 18,473,234                   |
| Accumulated other comprehensive loss  | (117,264)                                   | (97,288)                     |

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|                   |               |               |
|-------------------|---------------|---------------|
| Retained earnings | 2,939,696     | 1,806,731     |
|                   | 21,424,122    | 20,277,581    |
|                   | \$ 40,788,416 | \$ 36,859,214 |

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

*DGSE Companies, Inc. and Subsidiaries***CONSOLIDATED STATEMENTS OF OPERATIONS**

|  | <b>Three months ended September 30,</b> |               |
|--|---|---------------|
|  | <b>2008</b>                             | <b>2007</b>   |
|  | <b>Unaudited</b>                        |               |
| <b>Revenue</b>   |   |               |
| Sales  | \$ 24,345,861                           | \$ 16,771,838 |
| Consumer loan service charges  | 145,320                                 | 84,475        |
|  | 24,491,181                              | 16,856,313    |
| <b>Costs and expenses</b>  |   |               |
| Cost of goods sold   | 20,664,436                              | 13,891,332    |
| Selling, general and administrative expenses   | 3,309,030                               | 2,726,610     |
| Depreciation and amortization  | 88,422                                  | 96,584        |
|  | 24,061,888                              | 16,714,526    |
| Operating income   | 429,293                                 | 141,787       |
| Other expense (income)   |   |               |
| Other income   | (2,152)                                 | (577,198)     |
| Interest expense   | 180,255                                 | 182,704       |
| Earnings before income taxes   | 251,190                                 | 536,281       |
| Income tax expense   | 85,404                                  | 182,336       |
| Net earnings from continuing operations  | 165,786                                 | 353,945       |
| <b>Discontinued operations:</b>  |   |               |
| Loss from discontinued operations (less applicable income tax benefit of \$0 and \$771, respectively)              | —                                       | 1,498         |
| Loss on disposal of discontinued operations (less applicable income tax benefit of \$0 and \$35,053, respectively) | —                                       | 68,043        |
| Net earnings   | \$ 165,786                              | \$ 284,404    |
| Earnings per common share – basic  | \$ 0.02                                 | \$ 0.03       |
| Earnings per common share – diluted  | \$ 0.02                                 | \$ 0.03       |
| <b>Weighted average number of common shares:</b>   |   |               |
| Basic  | 9,833,635                               | 8,582,357     |
| Diluted  | 10,344,363                              | 10,392,717    |

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

*DGSE Companies, Inc. and Subsidiaries***CONSOLIDATED STATEMENTS OF OPERATIONS**

|  | <b>Nine months ended September 30,</b> |               |
|--|--|---------------|
|  | <b>2008</b>                            | <b>2007</b>   |
|  | <b>Unaudited</b>                       |               |
| <b>Revenue</b>   |  |               |
| Sales  | \$ 83,193,480                          | \$ 39,100,108 |
| Consumer loan service charges  | 400,489                                | 193,775       |
| Management fees  | —                                      | 250,000       |
|  | 83,593,969                             | 39,543,883    |
| <b>Costs and expenses</b>  |  |               |
| Cost of goods sold   | 71,296,196                             | 32,518,275    |
| Selling, general and administrative expenses   | 9,910,879                              | 5,697,795     |
| Depreciation and amortization  | 281,654                                | 196,127       |
|  | 81,488,729                             | 38,412,197    |
| Operating income   | 2,105,240                              | 1,131,686     |
| <b>Other expense (income)</b>  |  |               |
| Other income   | (27,493)                               | (579,449)     |
| Interest expense   | 555,422                                | 427,840       |
| Earnings before income taxes   | 1,577,311                              | 1,283,295     |
| Income tax expense   | 444,346                                | 436,321       |
| Net earnings from continuing operations  | 1,132,965                              | 846,974       |
| <b>Discontinued operations:</b>  |  |               |
| Loss from discontinued operations (less applicable income tax benefit of \$0 and \$17,659, respectively)           | —                                      | 34,279        |
| Loss on disposal of discontinued operations (less applicable income tax benefit of \$0 and \$35,053, respectively) | —                                      | 68,043        |
| Net earnings   | \$ 1,132,965                           | \$ 744,652    |
| Earnings per common share – basic  | \$ 0.12                                | \$ 0.11       |
| Earnings per common share – diluted  | \$ 0.11                                | \$ 0.10       |
| <b>Weighted average number of common shares:</b>   |  |               |
| Basic  | 9,666,182                              | 6,543,986     |
| Diluted  | 10,344,363                             | 7,395,848     |

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





*DGSE COMPANIES, Inc. and Subsidiaries***CONSOLIDATED STATEMENTS OF CASH FLOWS**

|  | <b>Nine months ended September 30,</b> |              |
|--|--|--------------|
|  | <b>2008</b>                            | <b>2007</b>  |
| <b>Cash flows from operating activities</b>  | <b>Unaudited</b>                       |              |
| Net earnings   | \$ 1,132,965                           | \$ 744,652   |
| Adjustments to reconcile net earnings to net cash provided by operating activities |  |              |
| Depreciation and amortization  | 281,654                                | 196,127      |
| Deferred income taxes  | 88,074                                 | (10,879)     |
| Loss on marketable securities  | 41,237                                 | —            |
| Loss on discontinued operations  | —                                      | 102,322      |
| Gain on sale of building   | —                                      | (579,447)    |
| (Increase) decrease in operating assets and liabilities                            |  |              |
| Trade receivables  | 253,500                                | (2,380,792)  |
| Inventories  | (2,123,751)                            | (390,218)    |
| Prepaid expenses and other current assets  | (263,928)                              | (221,140)    |
| Accounts payable and accrued expenses  | 799,884                                | (998,300)    |
| Customer deposits  | 552,151                                | 69,549       |
| Federal income taxes payable   | 258,895                                | 399,629      |
| Other assets   | 116,133                                | (98,745)     |
| Net cash provided by (used in) operating activities                                | 1,136,814                              | (3,167,242)  |
| <b>Cash flows from investing activities</b>  |  |              |
| Pawn loans made  | (954,746)                              | (391,136)    |
| Pawn loans repaid  | 463,118                                | 241,425      |
| Recovery of pawn loan principal through sale of forfeited collateral               | 471,701                                | 94,973       |
| Pay day loans made   | —                                      | (164,289)    |
| Pay day loans repaid   | —                                      | 125,982      |
| Purchase of property and equipment   | (901,871)                              | (119,772)    |
| Proceeds from sale of discontinued operations                                      | —                                      | 77,496       |
| Proceeds from sale of building   | —                                      | 924,742      |
| Acquisition of Eules Gold & Silver   | —                                      | (600,000)    |
| Merger costs paid  | (61,699)                               | (395,280)    |
| Net cash used in investing activities  | (983,497)                              | (205,859)    |
| <b>Cash flows from financing activities</b>  |  |              |
| Proceeds from line of credit   | 2,150,000                              | 4,219,352    |
| Conversion of warrants   | —                                      | 78,363       |
| Repayments of notes payable  | (905,352)                              | (754,228)    |
| Net cash provided by financing activities  | 1,244,648                              | 3,543,487    |
| <b>NET INCREASE IN CASH AND CASH EQUIVILANTS</b>                                   |  |              |
| <b>EQUIVALENTS</b>   | 1,397,965                              | 170,386      |
| Cash and cash equivalents at beginning of period                                   | 536,548                                | 1,210,282    |
| Cash and cash equivalents at end of period   | \$ 1,934,513                           | \$ 1,380,668 |

**Supplemental disclosures:**

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Interest paid for the three months ended September 30, 2008 and 2007 was \$89,995 and \$134,921, respectively. Income taxes paid for the three months ended September 30, 2008 and 2007 was \$0 and \$0, respectively.

Interest paid for the nine months ended September 30, 2008 and 2007 was \$438,674 and \$344,159, respectively. Income taxes paid for the nine months ended September 30, 2008 and 2007 was \$0 and \$235,000, respectively.

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

*DGSE COMPANIES, Inc. and Subsidiaries***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(1) Basis of Presentation.**

The accompanying unaudited condensed consolidated financial statements of DGSE Companies, Inc. and Subsidiaries include the financial statements of DGSE Companies, Inc. and its wholly-owned subsidiaries, DGSE Corporation, National Pawn, Inc., Charleston Gold and Diamond Exchange, Inc., Superior Galleries, Inc., Superior Precious Metals, Inc., Superior Estate Buyers, Inc. and American Gold and Silver 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, 2007, our quarterly report on Form 10Q for the three months ended March 31, 2008 and our quarterly report on Form 10Q for the six months ended June 30, 2008. In our opinion, the accompanying unaudited interim financial statements contain all adjustments, consisting only of those of a normal recurring nature, necessary to present fairly its results of operations and cash flows for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year. Certain reclassifications were made to the prior year's consolidated financial statements to conform to the current year presentation.

On July 13, 2007, we sold the loan balances from our American Pay Day Center locations and discontinued operations in those locations. As a result of this disposition, certain sections of the Consolidated Financial Statements and related notes have been reclassified to present the results of the American Pay Day Center locations as discontinued operations. In addition, we sold our old headquarters property during the third quarter of 2007 and recognized an after tax gain on the sale of \$382,000 that is reflected in the 2007 financial statements. The gross amount is recorded in other income.

**(2) Inventory.**

A summary of inventories is as follows:

|            | September 30, 2008 | December 31, 2007 |
|------------|--------------------|-------------------|
| Jewelry    | \$ 10,933,486      | \$ 8,118,454      |
| Rare coins | 1,651,422          | 3,482,248         |
| Bullion    | 1,284,081          | 486,991           |
| Scrap gold | 546,880            | 414,099           |
| Other      | 683,664            | 473,990           |
| Total      | \$ 15,099,533      | \$ 12,975,782     |

**(3) Trade Receivables.**

Pawn loans receivable in the amount of \$302,724 and \$263,856 as of September 30, 2008 and December 31, 2007, respectively, are included in the Consolidated Balance Sheets caption trade receivables as of these respective dates.

The related pawn service charges receivable in the amount of \$92,881 and \$63,532 as of September 30, 2008 and December 31, 2007, respectively, are also included in the Consolidated Balance Sheets caption trade receivables as of these respective dates.

**DGSE COMPANIES, Inc. and Subsidiaries****(4) 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, 2008 and 2007 is as follows:

|                                   | 2008   |            |           | 2007   |            |           |
|-----------------------------------|--|------------|-----------|--|------------|-----------|
|                                   | Three months ended September 30,<br>Net Earnings | Shares     | Per share | Three months ended September 30,<br>Net Earnings | Shares     | Per share |
| Basic earnings per common share   | \$ 165,786                                       | 9,833,635  | \$ 0.02   | \$ 284,404                                       | 8,582,357  | \$ 0.03   |
| Effect of dilutive stock options  | —  | 510,728    | —         | —  | 1,810,360  | —         |
| Diluted earnings per common share | \$ 165,786                                       | 10,344,363 | \$ 0.02   | \$ 284,404                                       | 10,392,717 | \$ 0.03   |

  

|                                   | 2008  |            |           | 2007  |           |           |
|-----------------------------------|---|------------|-----------|---|-----------|-----------|
|                                   | Nine months ended September 30,<br>Net Earnings | Shares     | Per share | Nine months ended September 30,<br>Net Earnings | Shares    | Per share |
| Basic earnings per common share   | \$ 1,132,965                                    | 9,666,182  | \$ 0.12   | \$ 744,652                                      | 6,543,986 | \$ 0.11   |
| Effect of dilutive stock options  | —   | 678,181    | (0.01)    | —   | 851,862   | (0.01)    |
| Diluted earnings per common share | \$ 1,132,965                                    | 10,344,363 | \$ 0.11   | \$ 744,652                                      | 7,395,848 | \$ 0.10   |

**(5) 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. Our operations by segment for the nine months ended September 30 were as follows:

| (In thousands)      | Retail Jewelry     | Wholesale Jewelry | Precious Metals | Rare Coins | Corporate Auctions | Other Consolidated |
|---------------------|--------------------|-------------------|-----------------|------------|--------------------|--------------------|
| Revenues            |                    |                   |                 |            |                    |                    |
| 2008                | \$ 20,307          | \$ 3,645          | \$ 40,256       | \$ 16,042  | \$ 1,710           | \$ 1,634           |
| 2007                | 12,153             | 3,948             | 12,027          | 9,530      | 1,037              | 849                |
| Net earnings (loss) |                    |                   |                 |            |                    |                    |
| 2008                | 681                | 34                | 410             | 70         | (14)               | (48)               |
| 2007                | 325 <sup>(1)</sup> | 93                | 132             | 34         | 164                | (3)                |
| Identifiable assets |                    |                   |                 |            |                    |                    |
| 2008                | 19,315             | 1,073             | 1,289           | 2,801      | 1,632              | 5,665              |
| 2007                | 11,958             | 1,067             | 355             | 3,339      | 1,814              | 983                |

| Goodwill                      |     |     |    |    |     |        |        |
|-------------------------------|-----|-----|----|----|-----|--------|--------|
| 2008                          | —   | 837 | —  | —  | —   | 8,177  | 9,014  |
| 2007                          | —   | 837 | —  | —  | —   | 12,374 | 13,211 |
| Capital Expenditures          |     |     |    |    |     |        |        |
| 2008                          | 754 | —   | —  | —  | 148 | —      | 902    |
| 2007                          | 106 | —   | —  | —  | —   | 14     | 120    |
| Depreciation and amortization |     |     |    |    |     |        |        |
| 2008                          | 115 | —   | 42 | 41 | 41  | 43     | 282    |
| 2007                          | 91  | —   | 18 | 18 | 18  | 51     | 196    |

**DGSE COMPANIES, Inc. and Subsidiaries**

Our operations by segment for the three months ended September 30 were as follows:

| <i>(In thousands)</i>                | <b>Retail<br/>Jewelry</b> | <b>Wholesale<br/>Jewelry</b> | <b>Precious<br/>Metals</b> | <b>Rare<br/>Coins</b> | <b>Auctions</b> | <b>Corporate<br/>and Other</b> | <b>Consolidated</b> |
|--------------------------------------|---------------------------|------------------------------|----------------------------|-----------------------|-----------------|--------------------------------|---------------------|
| <b>Revenues</b>                      |                           |                              |                            |                       |                 |                                |                     |
| 2008                                 | \$ 6,036                  | \$ 1,148                     | \$ 13,382                  | \$ 2,927              | \$ 496          | \$ 502                         | \$ 24,491           |
| 2007                                 | 4,097                     | 1,105                        | 5,740                      | 4,908                 | 711             | 295                            | 16,856              |
| <b>Net earnings (loss)</b>           |                           |                              |                            |                       |                 |                                |                     |
| 2008                                 | 75                        | (13)                         | 38                         | 58                    | (60)            | 68                             | 166                 |
| 2007                                 | 232 <sup>(1)</sup>        | 27                           | 63                         | 4                     | 17              | (59)                           | 284                 |
| <b>Identifiable assets</b>           |                           |                              |                            |                       |                 |                                |                     |
| 2008                                 | 19,315                    | 1,073                        | 1,289                      | 2,801                 | 1,632           | 5,665                          | 31,775              |
| 2007                                 | 11,958                    | 1,067                        | 355                        | 3,339                 | 1,814           | 983                            | 19,516              |
| <b>Goodwill</b>                      |                           |                              |                            |                       |                 |                                |                     |
| 2008                                 | —                         | 837                          | —                          | —                     | —               | 8,177                          | 9,014               |
| 2007                                 | —                         | 837                          | —                          | —                     | —               | 12,374                         | 13,211              |
| <b>Capital Expenditures</b>          |                           |                              |                            |                       |                 |                                |                     |
| 2008                                 | 220                       | —                            | —                          | —                     | 37              | —                              | 257                 |
| 2007                                 | 13                        | —                            | —                          | —                     | —               | 3                              | 16                  |
| <b>Depreciation and amortization</b> |                           |                              |                            |                       |                 |                                |                     |
| 2008                                 | 39                        | —                            | 14                         | 14                    | 13              | 9                              | 89                  |
| 2007                                 | 38                        | —                            | 13                         | 13                    | 13              | 19                             | 96                  |

(1) Includes \$382,000 of after tax earnings related to the sale of our corporate headquarters during the third quarter of 2007.

**(6) Stock-based Compensation.**

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

Stock-based compensation expense under SFAS No. 123(R) for the nine months ended September 30, 2008 and 2007, respectively, was \$30,400 and \$0, relating to employee and director stock options and our employee stock purchase plan.

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

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

On November 10, 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 123(R)-3, "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards", which detailed an alternative transition method for calculating the tax effects of stock-based compensation pursuant to SFAS No. 123(R). This alternative transition method included simplified methods to establish the beginning balance of the additional paid-in capital pool (APIC pool) related to the tax effects of employee stock-based compensation and to determine the subsequent impact on the APIC pool and Consolidated Statement of Cash Flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS No. 123(R). As of September 30, 2008, we have not recorded the tax effects of employee stock-based compensation and have made no adjustments to the APIC pool.



***DGSE COMPANIES, Inc. and Subsidiaries***

SFAS No. 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. As there have been no stock options exercised, we have not reported these excess tax benefits as of September 30, 2008.

**(7) Acquisitions**

*Superior Galleries, Inc.* On May 30, 2007, we completed our acquisition of Superior Galleries, Inc., which we refer to as Superior, pursuant to an amended and restated agreement and plan of merger and reorganization dated as of January 6, 2007, which we refer to as the merger agreement, with Superior and Stanford International Bank Ltd., then Superior's largest stockholder and its principal lender, which we refer to as Stanford, as stockholder agent for the Superior stockholders, whereby Superior became a wholly owned subsidiary of DGSE Companies, Inc. Superior's principal line of business is the sale of rare coins on a retail, wholesale, and auction basis. Superior operates a store in Beverly Hills, CA. The total purchase price of approximately \$13.8 million was broken down as follows:

|                           | Shares    | Stock Price         | Extended Price |
|---------------------------|-----------|---------------------|----------------|
| Common stock              | 3,669,067 | \$ 2.55             | \$ 9,356,121   |
| A warrants                | 845,634   | 1.27 <sup>(1)</sup> | 1,073,955      |
| B warrants                | 863,000   | 2.55                | 2,200,650      |
| Exercise Price B warrants | 863,000   | \$ .001             | (863)          |
| Direct transaction costs  |           |                     | 1,176,290      |
| Total purchase price      |           |                     | \$ 13,806,153  |

(1) \$1.27 is the fair value of the warrants calculated under the Black Sholes method as of the acquisition date.

The total purchase price has been allocated to the fair value of assets acquired and liabilities assumed as follows:

|                           |               |
|---------------------------|---------------|
| Goodwill                  | \$ 8,203,448  |
| Intangible assets         | 2,521,340     |
| Deferred tax asset        | 1,860,475     |
| Property and other assets | 1,068,958     |
| Inventory                 | 3,260,766     |
| Liabilities assumed       | (3,108,834)   |
| Total purchase price      | \$ 13,806,153 |

In accordance with SFAS 142, the goodwill will not be amortized but instead tested for impairment in accordance with the provisions of SFAS 142 at least annually and more frequently upon the occurrence of certain events.

The operating results of Superior have been included in the consolidated financial statements since the acquisition date of May 30, 2007. The following unaudited pro forma condensed consolidated financial information reflects actual results of operations for the three and nine months ended September 30, 2008, the three months ended September 30, 2007 and pro forma results of operations for the nine months ended September 30, 2007 as if the acquisition of Superior had occurred on January 1, 2007 and after giving effect to purchase accounting adjustments.

*DGSE COMPANIES, Inc. and Subsidiaries*

These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what operating results would have been had the acquisition actually taken place at the beginning of the period, and may not be indicative of future operating results:

| <i>(In thousands, except per share data)</i> | <b>Three Months Ended September 30,</b> |             |
|--|---|-------------|
|  | <b>2008</b>                             | <b>2007</b> |
|  | <b>(Unaudited)</b>                      |             |
| Total revenue                                | \$ 24,491                               | \$ 16,856   |
| Net earnings (loss)                          | \$ 166                                  | \$ 284      |
| Net earnings (loss) per share — basic        | \$ 0.02                                 | \$ 0.03     |
| Net earnings (loss) per share — diluted      | \$ 0.02                                 | \$ 0.03     |
| Weighted average shares — basic              | 9,834                                   | 8,582       |
| Weighted average shares — diluted            | 10,344                                  | 10,393      |

  

| <i>(In thousands, except per share data)</i> | <b>Nine Months Ended September 30,</b> |             |
|--|--|-------------|
|  | <b>2008</b>                            | <b>2007</b> |
|  | <b>(Unaudited)</b>                     |             |
|  | <b>(Pro forma)</b>                     |             |
| Total revenue                                | \$ 83,594                              | \$ 50,142   |
| Net earnings (loss)                          | \$ 1,133                               | \$ (2,932)  |
| Net earnings (loss) per share — basic        | \$ 0.12                                | \$ (0.37)   |
| Net earnings (loss) per share — diluted      | \$ 0.11                                | \$ (0.37)   |
| Weighted average shares — basic              | 9,666                                  | 7,857       |
| Weighted average shares — diluted            | 10,344                                 | 8,709       |

In relation to the acquisition, as of June 29, 2007, Stanford and Dr. L.S. Smith, our chairman and chief executive officer, collectively had the power to vote approximately 63% of our voting securities, and beneficially owned approximately 56.4% of our voting securities on a fully-diluted basis (after giving effect to the exercise of all options and warrants held by them which are exercisable within sixty days of June 29, 2007 but not giving effect to the exercise of any other options or warrants). Consequently, these two stockholders may have sufficient voting power to control the outcome of virtually all corporate matters submitted to the vote of our common stockholders. Those matters could include the election of directors, changes in the size and composition of our board of directors, mergers and other business combinations involving us, or the liquidation of our company. In addition, Stanford and Dr. Smith have entered into a corporate governance agreement with us, which entitles Stanford and Dr. Smith to each nominate two “independent” directors to our board and entitles Dr. Smith, our chairman and chief executive officer, and William H. Oyster, our president and chief operating officer, to be nominated to our board for so long as each remains an executive officer.

Through this control of company nominations to our board of directors and through their voting power, Stanford and Dr. Smith are able to exercise substantial control over certain decisions, including decisions regarding the qualification and appointment of officers, dividend policy, access to capital (including borrowing from third-party lenders and the issuance of additional equity securities), a merger or consolidation with another company, and our acquisition or disposition of assets. Also, the concentration of voting power in the hands of Stanford and Dr. Smith could have the effect of delaying or preventing a change in control of our company, even if the change in control would benefit our other stockholders. The significant concentration of stock ownership may adversely affect the trading price of our common stock due to investors’ perception that conflicts of interest may exist or arise.

*Eules Gold & Silver, Inc.*

On May 9, 2007 we purchased all of the tangible assets of Euless Gold and Silver, Inc., located in Euless, Texas. The purchase price paid for these assets totaled \$1,000,000 including \$600,000 in cash and a two year note in the amount of \$400,000. We opened a new retail store in the former Euless Gold & Silver facility and operate under the name of Dallas Gold & Silver Exchange. Of the assets received, \$990,150 was inventory and the remainder was fixed assets.

We entered into these transactions seeing them as opportunistic acquisitions that would allow us to expand our operations and provide a platform for future growth.

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*DGSE COMPANIES, Inc. and Subsidiaries*

**(8) New Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measures" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measures required under other accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. Effective January 1, 2008, we have adopted the provisions of SFAS 157. The adoption did not have any financial impact on our results of operations and financial position.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Effective January 1, 2008, we have adopted the provisions of SFAS 159 except as it applies to those nonfinancial assets and nonfinancial liabilities. Due to the fact that management has not elected to use the fair value option for eligible items, the adoption did not have any financial impact on our results of operations and financial position.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"). Among other changes, SFAS 141R requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction at fair value; and establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, including earn-out provisions. SFAS 141R is effective for business combinations occurring in the first annual reporting period beginning after December 15, 2008. We are evaluating the anticipated effect of this recently issued standard on our consolidated results of operations, financial position and cash flows.

In April 2008, the FASB issued FASB Staff Position No. 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP No. 142-3"), which amends the factors that should be considered when developing renewal or extension assumptions used to determine the useful life of an intangible asset under Statement of Financial Accounting Standards No. 142 ("SFAS No. 142"), "Goodwill and Other Intangible Assets", in order to improve consistency between SFAS No. 142 and the period of expected cash flows to measure the fair value of the asset under Statement of Financial Accounting Standards No. 141 (revised 2007), "Business Combinations" and other U.S. generally accepted accounting practices. This FASB Staff Position is effective for fiscal periods beginning on or after December 15, 2008. The adoption of FSP No. 142-3 is not expected to have a material impact on our results of operations and financial position.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"). This statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in accordance with GAAP. With the issuance of this statement, the FASB concluded that the GAAP hierarchy should be directed toward the entity and not its auditor, and reside in the accounting literature established by the FASB as opposed to the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards No. 69, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." This statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." We have evaluated the new statement and have determined that it will not have a significant impact on the determination or reporting of our financial results.

**(9) Related Party Transactions**

During the first nine months of 2008, approximately \$2,800,000 of our revenue was for bullions sales to Stanford Coin and Bullion, a wholly-owned subsidiary of Stanford International Bank Ltd., our second largest shareholder.

*DGSE COMPANIES, Inc. and Subsidiaries*

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

**Forward-Looking Statements**

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

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

Additional important factors that could cause our actual results to differ materially from our expectations are discussed under "Risk Factors" in our Annual Report on Form 10-K for our fiscal year ended December 31, 2007. 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 consumers, dealers and institutions throughout the United States. In addition, we make collateralized loans to individuals in the State of Texas. Our products and services are marketed through our facilities in Dallas and Euless, Texas; Mt. Pleasant, South Carolina; Beverly Hills, California and through our internet web sites DGSE.com; CGDEinc.com; SGBH.com; SuperiorPreciousMetals.com; SuperiorEstateBuyers.com; USBullionExchange.com; Americangoldandsilverexchange.com; and FairchildWatches.com.

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

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

On May 9, 2007 we purchased all of the tangible assets of Eules Gold and Silver, Inc., located in Eules, Texas. We opened a new retail store in the former Eules Gold & Silver facility and operate under the name of Dallas Gold & Silver Exchange.

***DGSE COMPANIES, Inc. and Subsidiaries***

On May 30, 2007, we completed the acquisition of Superior Galleries, Inc. located in Beverly Hills, California. Superior's principal line of business is the sale of rare coins on a retail, wholesale, and auction basis. Superior's retail and wholesale operations are conducted in virtually every state in the United States. Superior also conducts live and interned auctions for customers seeking to sell their own coins. 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.

On July 13, 2007, we sold the loan balances from our American Pay Day Center locations and discontinued operations in those locations.

On August 3, 2007 we announced the launch of Americangoldandsilverexchange.com along with the simultaneous activation of over 900 proprietary Internet sites related to the home page of Americangoldandsilverexchange.com. This site, along with our existing locations in Texas, California and South Carolina, provides customers from all over the United States with a safe and seamless way to value and sell gold, silver, rare coins, jewelry, diamonds and watches.

Late in 2007, Superior Estate Buyers was launched to bring our unique expertise in the purchase of gold, silver, diamonds, rare coins and other collectibles to local markets with a team of traveling professionals for short-term buying events. It is our expectation that, over time, this activity will be expanded significantly with the objective of having teams conducting events on a continuous basis.

Superior Precious Metals was also launched in late 2007 and it is the retail precious metals arm of DGSE. Professional account managers provide a convenient way for individuals and companies to buy and sell precious metals and rare coins. This activity is supported by the internally developed account management and trading platform created as part of DGSE's USBullionExchange.com precious metals system.

**Significant Accounting Policies**

*Inventory.* Jewelry and other inventory is valued at lower-of-cost-or-market (specific identification). Bullion inventory is valued at lower-of-cost-or-market (average cost).

*Accounts Receivable.* We record trade receivables when revenue is recognized. No product has been consigned to customers. Our allowance for doubtful accounts is primarily determined by review of specific trade receivables. Those accounts that are doubtful of collection are included in the allowance. The allowance for doubtful accounts is periodically reviewed to determine the adequacy of the allowance amount. Trade receivables are charged off when there is certainty as to their being uncollectible. Trade receivables are considered delinquent when payment has not been made within contract terms.

*Auction Advances.* We have established a short-term lending program advancing consignment customers cash based on consigned inventory acquired for upcoming auctions. We may advance a customer up to 70% of consigned, or assigned, rare coin(s)' wholesale value. For auction advances, we will advance cash to a customer and take control of the inventory to be held on consignment for auction. The customer will sign a note receivable for the funds advanced to be secured by the consigned inventory. As consigned inventory is sold, the proceeds will be collected, repaying us for the auction advance and any auction fees, with the remaining amount due to the consignor.

*Revenue Recognition.* We generate revenue 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. We recognize sales on an F.O.B. shipping



point basis.

We sell rare coins to other wholesalers/dealers within our industry on credit, generally for terms of 14 to 60 days, but in no event greater than one year. We grant credit to new dealers based on extensive credit evaluations and for existing dealers based on established business relationships and payment histories. We generally do not obtain collateral with which to secure our accounts receivable when the sale is made to a dealer. We maintain reserves for potential credit losses based on an evaluation of specific receivables and our historical experience related to credit losses.

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

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*DGSE COMPANIES, Inc. and Subsidiaries*

We also sell rare coins to retail customers on credit, generally for terms of 30 to 60 days, but in no event greater than one year. We grant 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, we generally collect a payment of 25% of the sales price, establish a payment schedule for the remaining balance and hold 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, we 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, we exchange merchandise for similar merchandise and/or monetary consideration with both dealers and retail customers, for which we recognize revenue in accordance with SFAS 153, "*Exchanges of Nonmonetary Assets – An Amendment of APB Opinion No. 29.*" When we exchange merchandise for similar merchandise and there is no monetary component to the exchange, we do 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 we exchange merchandise for similar merchandise and there is a monetary component to the exchange, we recognize 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.

We have 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 we are acting as an agent for the consignor. If in the process of selling consigned goods, we make 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 us at that payment date, we record that payment as a purchase and the sale of the consigned good(s) to the buyer as revenue as we have assumed all collection risk.

Our auction businesses generate revenue in the form of commissions charged to buyers and sellers of auction lots. Auction commissions include buyers' commissions, sellers' commissions, and buyback commissions, each of which is calculated based on a percentage of the hammer price.

Buyers' and sellers' commissions are recognized upon the confirmation of the identification of the winning bidders. Funds charged to winning bidders include the hammer price plus the commission. Only the commission portion of the funds received by winning bidders is recorded as revenue.

Buyback commissions represent an agreed upon rate charged by us for goods entered in the auction and not sold. Goods remain unsold when an auction lot does not meet the consignor reserve, which is the minimum sales price as determined prior to auction, and when items sold at auction are returned subsequent to the winning bidder taking possession. Buyback commission is recognized along with sellers' commission or at the time an item is returned. Returns from winning bidders are very limited and primarily occur when a rare coin sold at auction has an error in its

description which the winner bidder relied upon to purchase the item.

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

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*DGSE COMPANIES, Inc. and Subsidiaries*

**Results of Operations**

**Three Months Ended September 30, 2008 compared to Three Months Ended September 30, 2007**

Sales increased by \$7,574,000 or 45%, during the three months ended September 30, 2008 as compared to 2007. This increase was primarily the result of a \$7,642,000, or 133%, increase in the sale of precious metal products, offset slightly by the net effect of a \$1,981,000, or 40%, decrease in rare coin sales and \$1,939,000, or 47%, increase in our retail jewelry sales during the third quarter of 2008 as compared to 2007 and auction revenues of \$496,000 during 2008 as compared to \$711,000 in 2007. The increases in precious metals and jewelry sales were due to an approximately 20% price increase in gold products as compared to the third quarter of 2007 and the sale of scrap jewelry purchased over the counter. The decrease in rare coin revenues was due to our retail customers adjusting their focus to more bullion related products. Consumer loan service fees increased \$61,000, or 72%, in the second quarter of 2008 as compared to the second quarter of 2007. This increase is primarily attributable to the second pawn location we opened in November 2007 as well as increased loan activity in our initial location. Cost of goods as a percentage of sales increased from 82.8% in 2007 to 84.9 % in 2008. This increase was due to the increase in precious metals revenue as a percentage of total sales.

Selling, general and administrative expenses increased by \$582,000, or 21.4%, during the three months ended September 30, 2008 as compared to 2007. This increase was primarily due to the additional selling, general and administrative cost related to the new operation of Superior Precious Metals, Superior Estate Buyers, American Gold and Silver Exchange and our second pawn shop in 2008.

The \$575,000 decrease in other income in 2008 is directly related to the sale of our corporate headquarters during the third quarter of last year.

Income taxes are provided at the rate of 34% for 2008 and 34% for 2007.

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 products.

**Nine Months Ended September 30, 2008 compared to Nine Months Ended September 30, 2007**

Sales increased by \$44,093,000 or 113%, during the nine months ended September 30, 2008 as compared to 2007. This increase was primarily the result of a \$28,229,000, or 235%, increase in the sale of precious metal products, a \$6,512,000, or 68%, increase in rare coin sales and \$8,154,000, or 67%, increase in our retail jewelry sales during the first nine months of 2008 as compared to 2007 and an increase in auction revenues of \$673,000, or 65%, during 2008 as compared to 2007. The increases in precious metals, rare coin and jewelry sales were due to an approximately 40% price increase in gold products and the acquisition of Superior Galleries and Eulless Gold and Silver in May 2007. Consumer loan service fees increased \$207,000, or 107%, in the first nine months of 2008 as compared to the first nine months of 2007. This increase is primarily attributable to the second pawn location we opened in November 2007 as well as increased loan activity in our initial location. Cost of goods as a percentage of sales increased from 83.2% in 2007 to 85.7 % in 2008. This increase was due to the increase in rare coin and precious metals revenue as a percentage of total sales.

Selling, general and administrative expenses increased by \$4,213,000, or 74%, during the nine months ended September 30, 2008 as compared to 2007. This increase was primarily due to the acquisition of Superior Galleries and Eules Gold and Silver in May 2007. These acquisitions accounted for \$2,578,000 of the increase. In addition, selling, general and administrative cost related to the new operation of Superior Precious Metals, Superior Estate Buyers, American Gold and Silver Exchange and our second pawn shop totaled approximately \$1,620,000 during the first nine months of 2008. Depreciation and amortization increased by \$85,527, or 44%, during the first nine months of 2008 due to additional assets being purchased through our recent acquisitions, new businesses and the purchase of our new store and headquarters facility. The increase in interest expense was due to the additional debt related to the Superior acquisition.

Income taxes are provided at the rate of 28.17% and 34% for 2008 and 2007, 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 products.

*DGSE COMPANIES, Inc. and Subsidiaries***Liquidity and Capital Resources**

We expect capital expenditures to total approximately \$500,000 during the next twelve months. It is anticipated that these expenditures will be funded from working capital and our credit facility. As of September 30, 2008 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 jewelry inventory growth and our management believes that they will continue to do so in the future. Any significant increase in wholesale accounts receivable will be financed under our credit facility.

Our ability to finance our operations and working capital needs are dependent upon management's ability to negotiate extended terms or refinance our 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 or a portion of our investments in marketable securities may be liquidated in order to meet unforeseen working capital requirements.

In December 2005, we entered into a revolving credit facility with Texas Capital Bank, N.A., which currently permits borrowings up to a maximum principal amount of \$4,300,000 and has a maturity date of June 22, 2009. Borrowings under the revolving credit facility are collateralized by a general security interest in substantially all of our assets (other than the assets of Superior). As of September 30, 2008, approximately \$4,300,000 was outstanding under the term loan and revolving credit facility. If we were to default under the terms and conditions of the revolving credit facility, Texas Capital Bank would have the right to accelerate any indebtedness outstanding and foreclose on our assets in order to satisfy our indebtedness. Such a foreclosure could have a material adverse effect on our business, liquidity, results of operations and financial position. The covenants associated with our credit facility with Texas Capital Bank, N.A. are as follows:

| As of September 30, 2008                        | Requirement                  | Actual calculation |
|---|------------------------------|--------------------|
| Minimum tangible net worth                      | 6,500,000                    | 9,969,414          |
| Maximum total liabilities to tangible net worth | Not to exceed 1.50           | 1.07               |
| Minimum debt service coverage                   | Must be greater than<br>1.35 | 3.45               |

Upon the consummation of our acquisition of Superior, and after the exchange by Stanford of \$8,400,000 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 \$19,890,000 to \$11,500,000, reflecting the \$8,400,000 debt exchange. Interest on the outstanding principal balance will continue to accrue at the prime rate, as reported in the Wall Street Journal or, during an event of default, at a rate 5% greater than the prime rate as so reported.

The new credit facility is split into two revolving loans of \$5,000,000 and \$6,500,000. Loan proceeds can only be used for customer loans consistent with specified loan policies and procedures and for permitted inter-company transactions. Permitted inter-company transactions are loans or dividends paid to us or our other subsidiaries. We guaranteed the repayment of these permitted inter-company transactions pursuant to a secured guaranty in favor of

Stanford. In connection with the secured guarantee, Stanford and Texas Capital Bank, N.A., our primary lender, entered into an intercreditor agreement with us, and we entered into a subordination agreement with Superior, both of which subordinate Stanford's security interests and repayment rights to those of Texas Capital Bank.

As of September 30, 2008, approximately \$2,650,000 was available under the revolving credit facility.

***DGSE COMPANIES, Inc. and Subsidiaries***

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

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

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

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

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 \$2,441,922 and an interest rate of 6.70%. The loan has required monthly principal and interest payments of \$20,192 with the final payment due on August 1, 2016.

| <b>Contractual Cash Obligations</b> | <b>Total</b>         | <b>Payments due by period</b> |                     |                     |                     |
|-------------------------------------|----------------------|-------------------------------|---------------------|---------------------|---------------------|
|                                     |                      | <b>2008</b>                   | <b>2009 - 2010</b>  | <b>2011 - 2012</b>  | <b>Thereafter</b>   |
| Notes payable                       | \$ 187,463           | \$ 187,463                    | \$ —                | \$ —                | \$ —                |
| Long-term debt and capital leases   | 15,236,184           | 124,216                       | 4,807,752           | 8,492,048           | 1,812,168           |
| Federal income taxes                | 199,554              | 199,554                       | —                   | —                   | —                   |
| Operating Leases                    | 2,812,033            | 158,969                       | 1,290,021           | 1,206,633           | 156,410             |
| <b>Total</b>                        | <b>\$ 18,435,234</b> | <b>\$ 670,202</b>             | <b>\$ 6,097,773</b> | <b>\$ 9,698,681</b> | <b>\$ 1,968,578</b> |



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

*DGSE COMPANIES, Inc. and Subsidiaries*

**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 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.

*Changes in internal controls.* For the quarter ended September 30, 2008, 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 4. Submission of Matters to a Vote of Security Holders.**

On July 28, 2008, we held our annual meeting of shareholders to elect directors to the our board of directors to serve until their successors are elected and qualified or their earlier resignation or removal and to ratify the selection of BKR Cornwell Jackson as the independent registered public accounting firm for our fiscal year ending December 31, 2008.

The voting on the above proposals was as follows:

| <b>Proposal</b>  | <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|--|------------|----------------|----------------|
| Election of the following directors to our board of directors:   |            |                |                |
| Dr. L.S. Smith, Ph.D   | 9,698,106  | 273            | 5,772          |
| William H. Oyster  | 9,698,379  | —              | 5,772          |
| Dr. William P. Cordeiro, Ph.D.   | 9,698,379  | —              | 5,772          |
| Craig Alan-Lee   | 9,698,379  | —              | 5,772          |
| Richard M. Gozia   | 9,698,379  | —              | 5,772          |
| David Rector   | 9,698,379  | —              | 5,772          |
| Mitchell T. Stoltz   | 9,698,379  | —              | 5,772          |
| To ratify the selection of BKR Cornwell Jackson as our independent registered public account firm for our fiscal year ending December 31, 2008 | 9,703,918  | 3,350          | 39             |

**Item 5. Other Information.**

None.

*DGSE COMPANIES, Inc. and Subsidiaries***Item 6. Exhibits and Reports on Form 8-K.****Exhibits:**

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

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*DGSE COMPANIES, Inc. and Subsidiaries*

|      |  |   |        |                 |      |
|------|--|---|--------|-----------------|------|
| 10.1 | Renewal, Extension And Modification Agreement dated January 28, 1994, by and among DGSE Corporation and Michael E. Hall And Marian E. Hall | × | 10-KSB | March 1995      | 10.2 |
| 10.2 | Lease Agreement dated June 2, 2000 by and between SND Properties and Charleston Gold and Diamond Exchange, Inc.                            | × | 10-KSB | March 29, 2001  | 10.1 |
| 10.3 | Lease agreement dated October 5, 2004 by and between Beltline Denton Road Associates and Dallas Gold & Silver Exchange                     | × | 10-K   | April 15, 2005  | 10.2 |
| 10.4 | Lease agreement dated December 1, 2004 by and between Stone Lewis Properties and Dallas Gold & Silver Exchange                             | × | 10-K   | April 15, 2005  | 10.3 |
| 10.5 | Lease agreement dated November 18, 2004 by and between Hinkle Income Properties LLC and American Pay Day Centers, Inc.                     | × | 10-K   | April 15, 2005  | 10.4 |
| 10.6 | Lease Agreement dated January 17, 2005 by and between Belle-Hall Development Phase III Limited Partnership and DGSE Companies, Inc.        | × | S-4    | January 6, 2007 | 10.6 |
| 10.7 | Sale agreement dated executed July 5, 2007 by and between DGSE Companies, Inc. and Texas Department of Transportation                      | × | 8-K    | July 11, 2007   | 10.1 |
| 10.8 | Purchase agreement dated July 5, 2007 by and between DGSE Companies, Inc. and  | × | 8-K    | July 11, 2007   | 10.2 |

11311 Reeder Road  
Holdings, LP

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

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*DGSE COMPANIES, Inc. and Subsidiaries*

|       |  |   |     |                 |      |
|-------|--|---|-----|-----------------|------|
| 10.11 | Support Agreement, DGSE stockholders, dated as of January 6, 2007  | × | 8-K | January 9, 2007 | 99.1 |
| 10.12 | Securities Exchange Agreement, dated as of January 6, 2007   | × | 8-K | January 9, 2007 | 99.2 |
| 10.13 | Warrant to DiGenova, issued January 6, 2007  | × | 8-K | January 9, 2007 | 99.3 |
| 10.14 | Support Agreement, Superior stockholders, dated as of January 6, 2007  | × | 8-K | January 9, 2007 | 99.5 |
| 10.15 | Asset purchase agreement, dated May 9, 2007, by and between DGSE Companies, Inc. and Eules Gold & Silver, Inc.                                     | × | 8-K | May 9, 2007     | 1.0  |
| 10.16 | Subordinated Promissory Note dated May 9, 2007   | × | 8-K | May 9, 2007     | 2.0  |
| 10.17 | Registration Rights Agreement with Stanford International Bank Ltd., dated as of May 30, 2007  | × | 8-K | May 31, 2007    | 99.1 |
| 10.18 | Corporate Governance Agreement with Dr. L.S. Smith and Stanford International Bank Ltd., dated as of May 30, 2007                                  | × | 8-K | May 31, 2007    | 99.2 |
| 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   | × | 8-K | May 31, 2007    | 99.5 |





*DGSE COMPANIES, Inc. and Subsidiaries*

|       |  |   |     |              |      |
|-------|--|---|-----|--------------|------|
| 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.

**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 13, 2008

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 13, 2008

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

Dated: November 13, 2008

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

Dated: November 13, 2008