

DGSE COMPANIES INC
Form 10-Q
August 14, 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 June 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):

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

YES NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of August 1, 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**

	June 30, 2008	December 31, 2007
	Unaudited	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 934,051	\$ 536,548
Trade receivables	5,052,894	3,792,474
Auction advances	1,002,157	747,000
Inventories	15,046,163	12,975,782
Prepaid expenses	713,736	459,486
Prepaid federal income tax	—	59,341
Total current assets	22,749,001	18,570,631
Marketable securities - available for sale	20,532	61,769
Property and equipment, net	4,645,462	4,193,869
Deferred income taxes	1,717,131	1,805,205
Goodwill	9,013,880	8,952,181
Intangible assets	2,521,340	2,521,340
Other long-term receivable	465,971	444,383
Other assets	228,247	309,836
	\$ 41,361,564	\$ 36,859,214
LIABILITIES		
Current Liabilities:		
Notes payable	\$ 187,463	\$ 187,467
Current maturities of long-term debt	501,631	501,631
Accounts payable - trade	3,657,565	1,069,194
Federal income tax payable	195,469	—
Accrued expenses	444,669	1,018,003
Customer deposits	1,191,634	315,437
Total current liabilities	6,178,431	3,091,732
Long-term debt, less current maturities	13,924,797	13,489,901
	20,103,228	16,581,633
STOCKHOLDERS' EQUITY		
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)
Retained earnings	2,773,910	1,806,731

21,258,336 20,277,581

\$ 41,361,564 \$ 36,859,214

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

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

	Three months ended June 30,	
	2008	2007
	Unaudited	
Revenue		
Sales	\$ 26,244,397	\$ 12,351,892
Consumer loan service charges	130,849	61,410
Management fees	—	100,000
	26,375,246	12,513,302
Costs and expenses		
Cost of goods sold	22,211,744	10,232,710
Selling, general and administrative expenses	3,320,037	1,644,766
Depreciation and amortization	83,396	60,851
	25,615,177	11,938,327
Operating income	760,069	574,975
Other expense (income)		
Other income	(12,125)	(2,251)
Interest expense	189,961	137,896
Earnings before income taxes	582,233	439,330
Income tax expense	92,309	149,369
Net earnings from continuing operations	489,924	289,961
Discontinued operations:		
Loss from discontinued operations (less applicable income tax benefit of \$0 and \$6,247, respectively)	—	12,128
Net earnings	\$ 489,924	\$ 277,833
Earnings per common share - basic	\$ 0.05	\$ 0.04
Earnings per common share - diluted	\$ 0.05	\$ 0.04
Weighted average number of common shares:		
Basic	9,666,182	5,320,964
Diluted	10,344,363	6,731,618

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

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

	Six months ended June 30,	
	2008	2007
	Unaudited	
Revenue		
Sales	\$ 58,847,619	\$ 22,328,270
Consumer loan service charges	255,169	109,300
Management fees	—	250,000
	59,102,788	22,687,570
Costs and expenses		
Cost of goods sold	50,631,760	18,626,943
Selling, general and administrative expenses	6,601,849	2,971,185
Depreciation and amortization	193,232	99,543
	57,426,841	21,697,671
Operating income	1,675,947	989,899
Other expense (income)		
Other income	(25,341)	(2,251)
Interest expense	375,167	245,136
Earnings before income taxes	1,326,121	747,014
Income tax expense	358,942	253,985
Net earnings from continuing operations	967,179	493,029
Discontinued operations:		
Loss from discontinued operations (less applicable income tax benefit of \$0 and \$16,892, respectively)	—	32,781
Net earnings	\$ 967,179	\$ 460,248
Earnings per common share - basic	\$ 0.10	\$ 0.09
Earnings per common share - diluted	\$ 0.09	\$ 0.08
Weighted average number of common shares:		
Basic	9,582,456	5,117,127
Diluted	10,344,363	5,876,827

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

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

	Six months ended	
	June 30,	
	2008	2007
	Unaudited	
Cash flows from operating activities		
Net earnings	\$ 967,179	\$ 460,248
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	193,232	121,719
Deferred income taxes	88,074	—
Loss on marketable securities	41,237	—
(Increase) decrease in operating assets and liabilities		
Trade receivables	(1,526,674)	(787,467)
Inventories	(2,070,381)	151,724
Prepaid expenses and other current assets	(254,250)	(470,052)
Accounts payable and accrued expenses	2,028,613	(209,052)
Customer deposits	876,197	261,929
Federal income taxes payable	254,810	200,401
Other assets	81,589	(6,574)
Net cash provided by (used in) operating activities	679,626	(288,754)
Cash flows from investing activities		
Pawn loans made	(617,382)	(340,725)
Pawn loans repaid	291,528	215,453
Recovery of pawn loan principal through sale of forfeited collateral	315,363	58,887
Pay day loans made	—	(155,451)
Pay day loans repaid	—	120,335
Purchase of property and equipment	(644,825)	(103,529)
Acquisition of Eules Gold & Silver	—	(600,000)
Merger costs paid	(61,699)	(395,280)
Net cash used in investing activities	(717,015)	(1,200,310)
Cash flows from financing activities		
Proceeds from line of credit	1,250,000	1,359,077
Payments of capital lease	(3,972)	—
Conversion of warrants	—	78,363
Repayments of notes payable	(811,136)	(140,529)
Net cash provided by (used in) financing activities	434,892	1,296,911
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	397,503	(192,153)
Cash and cash equivalents at beginning of period	536,548	1,210,282
Cash and cash equivalents at end of period	\$ 934,051	\$ 1,018,129

Supplemental disclosures:

Interest paid for the three months ended June 30, 2008 and 2007 was \$174,230 and \$110,219, respectively. Income taxes paid for the three months ended June 30, 2008 and 2007 was \$0 and \$0, respectively.

Interest paid for the six months ended June 30, 2008 and 2007 was \$348,679 and \$209,238, respectively. Income taxes paid for the six months ended June 30, 2008 and 2007 was \$0 and \$50,000, 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. and American Pay Day Centers, 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 and our quarterly report on Form 10Q for the three months ended March 31, 2008. In our opinion, the accompanying unaudited interim financial statements contain all adjustments, consisting only of those of a normal recurring nature, necessary to present fairly its results of operations and cash flows for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year. Certain reclassifications were made to the prior year's consolidated financial statements to conform to the current year presentation.

On July 13, 2007, we sold the loan balances from our American Pay Day Center locations and discontinued operations in those locations. See Note 7, "Acquisitions and Discontinued Operations." 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.

(2) Inventory.

A summary of inventories is as follows:

	June 30, 2008	December 31, 2007
Jewelry	\$ 9,903,708	\$ 8,118,454
Rare coins	2,937,412	3,482,248
Bullion	1,175,176	486,991
Scrap gold	399,720	414,099
Other	630,147	473,990
Total	\$ 15,046,163	\$ 12,975,782

(3) Trade Receivables.

Pawn loans receivable in the amount of \$283,499 and \$263,856 as of June 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 \$79,721 and \$63,532 as of June 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 June 30, 2008 and 2007 is as follows:

	2008			2007		
	Three months ended June 30,			Three months ended June 30,		
	Net Earnings	Shares	Per share	Net Earnings	Shares	Per share
Basic earnings per common share	\$ 489,924	9,666,182	\$ 0.05	\$ 277,833	5,320,964	\$ 0.05
Effect of dilutive stock options	—	678,181	—	—	1,410,654	(0.01)
Diluted earnings per common share	\$ 489,924	10,344,363	\$ 0.05	\$ 277,833	6,731,618	\$ 0.04

	2008			2007		
	Six months ended June 30,			Six months ended June 30,		
	Net Earnings	Shares	Per share	Net Earnings	Shares	Per share
Basic earnings per common share	\$ 967,179	9,582,456	\$ 0.10	\$ 460,248	5,117,127	\$ 0.09
Effect of dilutive stock options	—	761,907	(0.01)	—	759,700	(0.01)
Diluted earnings per common share	\$ 967,179	10,344,363	\$ 0.09	\$ 460,248	5,876,827	\$ 0.08

(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 six months ended June 30 were as follows:

<i>(In thousands)</i>	Retail Jewelry	Wholesale Jewelry	Precious Metals	Rare Coins	Auctions	Corporate and Other	Consolidated
	Revenues						
2008	\$ 14,271	\$ 2,497	\$ 26,874	\$ 13,115	\$ 1,214	\$ 1,132	\$ 59,103
2007	8,056	2,843	6,287	4,622	326	554	22,688
Net earnings (loss)							
2008	606	47	372	12	46	(116)	967
2007	93	66	69	30	147	55	460

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Identifiable assets

2008	20,478	1,280	1,180	3,790	3,966	1,654	32,348
2007	11,141	1,204	344	3,568	941	984	18,182

Goodwill

2008	—	837	—	—	—	8,167	9,014
2007	—	837	—	—	—	12,374	13,211

Capital Expenditures

2008	520	—	—	—	125	—	645
2007	93	—	—	—	—	11	104

Depreciation and amortization

2008	76	—	28	27	28	34	193
2007	53	—	5	5	5	54	122

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DGSE COMPANIES, Inc. and Subsidiaries

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

<i>(In thousands)</i>	Retail Jewelry	Wholesale Jewelry	Precious Metals	Rare Coins	Auctions	Corporate and Other	Consolidated
Revenues							
2008	\$ 7,757	\$ 1,139	\$ 10,440	\$ 5,809	\$ 661	\$ 569	\$ 26,375
2007	4,105	1,507	2,944	3,336	326	295	12,513
Net earnings (loss)							
2008	398	14	37	12	116	(87)	490
2007	31	23	16	21	147	40	278
Identifiable assets							
2008	20,478	1,280	1,180	3,790	3,966	1,654	32,348
2007	11,141	1,204	344	3,568	941	984	18,182
Goodwill							
2008	—	837	—	—	—	8,167	9,014
2007	—	837	—	—	—	12,374	13,211
Capital Expenditures							
2008	248	—	—	—	111		