

DGSE COMPANIES INC
Form DEF 14A
April 30, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

**Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

DGSE COMPANIES, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

DGSE Companies, Inc.

15850 DALLAS PARKWAY, SUITE 140

Dallas, Texas 75248

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD JUNE 14, 2013

Dear Stockholder:

As a stockholder of DGSE Companies, Inc., you are hereby given notice of and invited to attend in person or by proxy our 2013 Annual Meeting of Stockholders to be held at the Marriott Quorum, 14901 Dallas Parkway, Dallas, Texas 75254, on Friday, June 14, 2013 at 10am (local time).

At this year's stockholders' meeting, you will be asked to: (i) elect five directors to serve until the next annual meeting of stockholders and until their respective successors shall have been duly elected and qualified; (ii) ratify the appointment of Whitley Penn LLP ("Whitley Penn") as our independent registered public accountants for the fiscal year ending December 31, 2013; (iii) cast an advisory vote on our current executive compensation; (iv) cast an advisory vote on the frequency of future advisory votes on our executive compensation; and (v) transact such other business as may properly come before the meeting and any adjournment(s) thereof. Our Board of Directors unanimously recommends that you vote: (a) FOR the directors nominated; (b) FOR the ratification of Whitley Penn; (c) FOR the approval of our current executive compensation, and (d) in favor of THREE YEARS as the frequency of the advisory vote on executive compensation. Accordingly, please give careful attention to these proxy materials.

Only holders of record of our Common Stock as of the close of business on **May 7, 2013** are entitled to notice of and to vote at our annual meeting and any adjournment(s) thereof. Our transfer books will not be closed.

You are cordially invited to attend the annual meeting. Whether you expect to attend the annual meeting or not, please vote, sign, date and return in the self-addressed envelope provided the enclosed proxy card as promptly as possible. If you attend the annual meeting, you may vote your shares in person, even though you have previously signed and returned your proxy.

By Order of the Board of Directors,

/s/ C. Brett Burford
C. Brett Burford
Secretary

Dallas, Texas

May 20, 2013

YOUR VOTE IS IMPORTANT.

PLEASE EXECUTE AND RETURN PROMPTLY THE

ENCLOSED PROXY CARD IN THE ENVELOPE PROVIDED HEREIN.

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DGSE Companies, Inc.

15850 DALLAS PARKWAY, SUITE 140

Dallas, Texas 75248

PROXY STATEMENT

FOR THE ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD JUNE 14, 2013

To Our Stockholders:

This proxy statement (this "Proxy Statement") is furnished in connection with the solicitation of proxies by the Board of Directors (our "Board of Directors" or "Board") of DGSE Companies, Inc., a Nevada corporation ("we," "us," "our," and "DGSE"), to be used at our Annual Meeting of Stockholders to be held at the Marriott Quorum, 14901 Dallas Parkway, Dallas, Texas 75254, on **Friday, June 14, 2013 at 10am** (local time), or at any adjournment or adjournments thereof. Our stockholders of record as of the close of business on **May 7, 2013** (the "Record Date") are entitled to vote at our annual meeting.

Important Notice of Availability of Proxy Materials for the Annual Meeting of Stockholders to be held on June 14, 2013.

Our proxy materials, including our Proxy Statement for the 2013 Annual Meeting, 2012 Annual Report on Form 10-K for the year ended December 31, 2012 and proxy card, were first sent to security holders on or about May 20, 2013 and are available on the internet at www.DGSE.com.

VOTING PROCEDURES AND REVOCABILITY OF PROXIES

The accompanying proxy card is designed to permit each of our stockholders as of the Record Date to vote on each of the proposals properly brought before the annual meeting. As of the Record Date, there were 12,175,584 shares of our

common stock, par value \$.01 per share (our “Common Stock”), issued and outstanding and entitled to vote at the annual meeting. Each outstanding share of our Common Stock is entitled to one vote.

The holders of a majority of our outstanding shares of Common Stock, present in person or by proxy, will constitute a quorum for the transaction of business at the annual meeting. If a quorum is not present, the annual meeting may be adjourned from time to time until a quorum is obtained.

Abstentions and broker non-votes will be counted for the purpose of determining whether a quorum is present. Abstentions, but not broker non-votes, are treated as shares present and entitled to vote, and will be counted as a “no” vote on all other matters. Broker non-votes are treated as not entitled to vote, and so reduce the absolute number, but not the percentage of votes needed for approval of a matter. Broker non-votes occur when nominees, such as banks and brokers holding shares on behalf of beneficial owners, do not receive voting instructions from the beneficial holders at least ten days before the meeting. If that happens, the nominees may vote those shares only on matters deemed “routine” by the NYSE MKT Exchange (the “Exchange”), such as the ratification of auditors. Nominees cannot vote on non-routine matters unless they receive voting instructions from beneficial holders, resulting in so-called “broker non-votes.”

Assuming that a quorum is present, directors will be elected by a plurality vote and the five nominees who receive the most votes will be elected. As a result, abstentions and broker non-votes, if any, will not affect the outcome of the vote on this proposal. There is no right to cumulative voting unless cumulative voting is requested at the Annual Meeting by a stockholder.

Assuming that a quorum is present, the ratification of the appointment of Whitley Penn LLP (“Whitley Penn”) as our independent registered public accountants for the fiscal year ending December 31, 2013 and approval of any other matter that may properly come before the annual meeting, the affirmative vote of a majority of the total votes cast on these proposals, in person or by proxy, is required to approve these proposals. As a result, abstentions will have the same practical effect as a negative vote on these proposals, and broker non-votes, if any, will not affect the outcome of the vote on these proposals. We believe that the proposal for the ratification of our independent registered public accounting firm is considered to be a “routine” matter, and hence we do not expect that there will be a significant number of broker non-votes on such proposal.

On December 10, 2012, NTR Metals, LLC, a Texas limited liability company (“NTR”) filed a Form 4 with the Securities and Exchange Commission (“SEC”) stating that, as of the filing date, NTR owned 5,026,442 shares of our Common Stock. NTR had previously filed, on October 31, 2012, a Schedule 13D/A with the SEC stating that, as of the filing date, NTR had been granted a proxy by Dr. L. S. Smith to vote his 1,628,014 shares until May 25, 2014, and holds an option to purchase up to 5,000,000 shares of our Common Stock, which if exercised would result in ownership of 67.85 percent of the outstanding shares of our Common Stock. On November 11, 2011, as a result of the transactions more fully described in Item 5.01 of our Current Report on Form 8-K, as filed with the SEC on November 15, 2011, NTR gained control over a majority of our Common Stock.

On January 7, 2013 NTR announced that it had agreed to transfer 4,393,142 of its shares of our Common Stock to Elemetal, LLC (“Elemetal”) in exchange for ownership units of Elemetal. NTR also announced its intention to transfer its option to purchase up to 5,000,000 shares of our Common Stock at an exercise price of \$15 per share (the “NTR Option”), to Elemetal. On January 9, 2013 we announced that our Board of Directors had approved the transfer of these options to Elemetal. As of the Record Date, May 7, 2013, (i) no shares have been transferred from NTR to Elemetal and (ii) the NTR Option has not yet been transferred from NTR to Elemetal. NTR has advised us that it expects to complete the necessary steps to complete the transfer of shares of our Common Stock and the NTR Option held by NTR to Elemetal by the end of May.

The accompanying proxy card provides space for you to vote in favor of, against or to withhold voting for: (i) the nominees for the Board of Directors identified herein; (ii) the ratification of the appointment of Whitley Penn as independent registered public accountants of DGSE for the fiscal year ending December 31, 2013; (iii) the proposal regarding an advisory vote on our current executive compensation; and (iv) the proposal that the advisory vote on executive compensation be held every three years. Our Board of Directors urges you to complete, sign, date and return the proxy card in the accompanying envelope, which is postage prepaid for mailing in the United States.

When a signed proxy card is returned with choices specified with respect to voting matters, the proxies designated on the proxy card will vote the shares in accordance with the stockholder’s instructions. We have designated James D. Clem and C. Brett Burford as proxies for the stockholders. If you desire to name another person as your proxy, you may do so by crossing out the names of the designated proxies and inserting the names of the other persons to act as your proxies. In that case, it will be necessary for you to sign the proxy card and deliver it to the person named as your proxy and for the named proxy to be present and vote at the annual meeting. Proxy cards so marked should not be

mailed to us.

If you sign your proxy card and return it to us and you have made no specifications with respect to voting matters, your shares will be voted FOR: (i) the election of the nominees for director identified herein; (ii) the ratification of the appointment of Whitley Penn as our independent registered public accountants for the fiscal year ending December 31, 2013; (iii) the proposal regarding an advisory vote on executive compensation; and (iv) the proposal that the advisory vote on executive compensation be held every three years.

You have the unconditional right to revoke your proxy at any time prior to the voting of the proxy by taking any act inconsistent with the proxy. Acts inconsistent with the proxy include notifying our Secretary in writing of your revocation, executing a subsequent proxy, or personally appearing at the annual meeting and casting a contrary vote. However, no revocation shall be effective unless at or prior to the annual meeting we have received notice of such revocation.

At least ten (10) days before the annual meeting, we will make a complete list of the stockholders entitled to vote at the annual meeting open to the examination of any stockholder for any purpose germane to the meeting. The list will be open for inspection during ordinary business hours at our executive offices located at 15850 Dallas Parkway, Suite 140, Dallas, Texas 75248, and will also be made available to stockholders present at the meeting.

PROPOSAL I: ELECTION OF DIRECTORS

Five directors are proposed to be elected at the annual meeting. If elected, each director will hold office until the next annual meeting of stockholders or until his successor is elected and qualified. The election of directors will be decided by a plurality vote.

The five nominees for election as directors to serve until the next annual meeting of stockholders and until their successors have been duly elected and qualified are Craig Alan-Lee, James D. Clem, William P. Cordeiro, David S. Rector and James J. Vierling. All of the nominees named in this proxy statement are members of our current Board of Directors. All nominees have consented to serve if elected and we have no reason to believe that any of the nominees named will be unable to serve. If any nominee becomes unable to serve, (i) the shares represented by the designated proxies will be voted for the election of a substitute as our Board of Directors may recommend, (ii) our Board of Directors may reduce the number of directors to eliminate the vacancy or (iii) our Board of Directors may fill the vacancy at a later date after selecting an appropriate nominee.

The current Board of Directors nominated the individuals named below for election to our Board of Directors, and information regarding the background and qualifications of each of the nominees is set forth below. See “Security Ownership of Certain Beneficial Owners and Management” for additional information about the nominees, including their ownership of securities issued by DGSE.

| Name | Age | Director Since | Position |
|--------------------------------------|------------|-----------------------|--------------------------------------------------------------------------------------------------------|
| James J. Vierling | 50 | 2012 | Chairman of the Board, Chief Executive Officer and President of DGSE Companies, Inc., President of SBT |
| James D. Clem | 37 | 2011 | Director and Chief Operating Officer of DGSE Companies, Inc. |
| William P. Cordeiro, Ph.D. (1)(2) | 69 | 1999 | Director and Chairman of the Audit Committee |
| Craig Alan-Lee (1)(2) | 55 | 2004 | Director |
| David S. Rector (1)(2) | 66 | 2007 | Director and Chairman of the Compensation Committee |

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

The following paragraphs summarize each director's principal occupation, business affiliations and other information.

James J. Vierling replaced William Oyster as our Chief Executive Officer, President, Chairman of the Board and Principal Executive Officer on October 25, 2012. Mr. Vierling was elected to the Board because of his extensive experience in the jewelry industry and his experience in other related enterprises. Prior to his appointment as CEO, since 2009, Mr. Vierling served as the President of Southern Bullion Trading, LLC ("SBT"), now a wholly-owned subsidiary of DGSE Companies, Inc. SBT was acquired by us on September 14, 2011 in an acquisition from NTR. Prior to joining SBT, from 2005 until 2009, Mr. Vierling was Chief Marketing Officer and Strategic Planner of A-1 Premium Acceptance, an installment loan company. Mr. Vierling holds a BA in economics from the University of Missouri.

James D. Clem has served as a director and Chief Operating Officer of DGSE Companies, Inc. since December, 2012. Mr. Clem was elected to the Board because of his extensive experience in the jewelry and precious metals industries and his experience in other related enterprises. Prior to his current position, Mr. Clem had served as our Vice President of Sales and Marketing since 2008. Prior to 2008, Mr. Clem was with the Heritage Organization, LLC, an estate planning firm, for seven years as Vice President of Sales and Marketing and then Chief Operating Officer. Mr. Clem holds a B.B.A. in business from the University of Texas at Arlington.

William P. Cordeiro, Ph.D. has served as a director and an independent member and financial expert of our Audit Committee since 1999. He has been a professor in the California State University system since 1988 and the director of the Martin V. Smith School of Business and Economics at CSU Channel Islands since 2001. He has also been a partner of Bartik, Cordeiro & Associates, Inc., a management consulting firm, since 1990. Dr. Cordeiro holds a B.S. in biology from the University of San Francisco, an M.B.A. in finance from University of Southern California, an M.A. in management from Claremont Graduate School and a Ph.D. in executive management from Claremont Graduate School. Dr. Cordeiro was elected to the Board because of his extensive financial experience.

Craig Alan-Lee has served as a director and independent member of our Audit Committee since 2004. He has served as a senior loan consultant with Castle Funding, Inc., a mortgage loan company, since November 1994. Mr. Alan-Lee was elected to the Board based on his 30 years of experience in business and management.

David S. Rector has served as a director and independent member of our Audit Committee since 2007 and was elected as Chairman of our Compensation Committee in 2012. He also serves on the board of directors of Standard Drilling, Inc., Valor Gold Corp. and Pershing Gold Corp. (formerly Sagebrush Gold, Ltd.) and previously served as a director of Superior Galleries, Inc. (“Superior”) from May 2003 until May 2007. Since 1985, he has served as a principal of David Stephen Group, which provides enterprise consulting services to emerging and developing companies in a variety of industries. Prior to that, he served as president, chief executive officer and chief operating officer of Nanoscience Technologies, Inc., a development stage company engaged in the development and commercialization of DNA nanotechnology. Mr. Rector holds a B.S. in business and finance from Murray State University. Mr. Rector was elected to the Board because of his extensive experience in the precious metals industry and his experience in other related enterprises.

Family Relationships

There are no family relationships among our nominees for director, our officers or our key employees.

Vote Required

Directors will be elected by a plurality of the votes cast by the holders of DGSE Common Stock voting in person or by proxy at the annual meeting. Abstentions and broker non-votes will each be counted as present for purposes of determining the presence of a quorum, but will have no effect on the vote for election of directors.

THE BOARD OF DIRECTORS URGES YOU TO VOTE “FOR”

EACH OF THE NOMINEES FOR DIRECTOR SET FORTH ABOVE.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL**OWNERS AND MANAGEMENT**

The following table sets forth, as of the Record Date, May 7, 2013, the beneficial ownership each stockholder known by us to own beneficially more than 5 percent of our outstanding shares of Common Stock. Common Stock beneficially owned and percentage ownership as of May 7, 2013 was based on 12,175,584 shares outstanding.

| (1) Title of class | (2) Name and address of beneficial owner | (3) Amount and nature of beneficial ownership | (4) Percent of class | (5) Sole Voting Power | (6) Shared Voting Power | (7) Sole Investment Power | (8) Shared Investment Power |
|--------------------------|------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------|--------------------------------|----------------------------------|------------------------------------|--------------------------------------|
| Common Stock | NTR (1) 10720 Composite Dr. Dallas, TX 75220 | 11,558,454 | 67.30 % | 11,558,454 | - | 10,037,642 | - |
| Common Stock | Dr. L. S. Smith (2) 519 I-30, Suite 243 Rockwall, TX 75087 | 1,520,812 | 12.49 % | - | - | 1,520,812 | - |
| Common Stock | David W. Berry (3) 4200 Montrose Blvd., Suite 400 Houston, TX 77006 | 957,370 | 7.86 % | 913,379 | 43,991 | 913,379 | 43,991 |

(1) NTR holds 5,037,642 shares of our Common Stock. NTR has notified us that intends to transfer a substantial portion of its holdings from NTR to Elemental, as more fully described in the Schedule 13D jointly filed by NTR and Elemental on January 2, 2013 (the "NTR-Elemental Schedule 13D"). However, as of the Record Date, the transfer of shares of our Common Stock from NTR to Elemental contemplated by the NTR-Elemental Schedule 13D has not been completed on our books and records. As a consequence, as of the Record Date, NTR remains the holder of 5,037,642 shares of our Common Stock, and Elemental holds 0 shares of our Common Stock. Additionally, NTR holds a proxy to vote 1,520,812 shares of our Common Stock held by Dr. L. S. Smith, which will expire May 25, 2014. Effective January 7, 2013, with our consent, NTR initiated the transfer of the NTR Option to Elemental. However, as of the Record Date, the transfer of the NTR Option has not been effected on our books and records. The NTR Option is vested and exercisable.

(2) Dr. L. S. Smith has granted NTR a proxy to vote his 1,520,812 shares of our Common Stock until May 25, 2014.

(3) This information was disclosed in the Schedule 13G, filed with the SEC on February 14, 2013, pursuant to a Joint Filing Agreement, by (i) Select Contrarian Value Partners, L.P. ("Select Contrarian"), (ii) Kaizen Fundamental Value Fund ("Kaizen Fundamental"), (iii) Trans Continental US Equity Fund ("Trans Continental"), (iv) Kaizen

Management, L.P. ("Kaizen Management"), the general partner of and investment advisor to Select Contrarian, (v) Kaizen Capital, LLC, the general partner of Kaizen Management ("Kaizen Capital"), and (vi) David W. Berry, the manager of Kaizen Management. Kaizen Management also serves as investment advisor to Kaizen Fundamental and Trans Continental. Mr. Berry was reported to hold sole voting and investment power over 913,379 shares of our Common Stock and shared voting and investment power over 43,991 shares of our Common Stock, Kaizen Capital was reported to hold sole voting and investment power over 873,179 shares of our Common Stock and shared voting and investment power over 43,991 shares of our Common Stock, Kaizen Management was reported to hold sole voting and investment power over 873,179 shares of our Common Stock and shared voting and dispositive power over 43,991 shares of our Common Stock, Kaizen Fundamental was reported to hold sole voting and investment power over 0 shares of our Common Stock and shared voting and dispositive power over 26,567 shares of our Common Stock, Trans Continental was reported to hold sole voting and investment power over 0 shares of our Common Stock and shared voting and dispositive power over 17,424 shares of our Common Stock, and Select Contrarian was reported to hold sole voting and investment power over 873,179 shares of our Common Stock. No information was provided by the filers as to the nature of the shared voting or investment power of Kaizen Management, Kaizen Capital, Kaizen Fundamental, Trans Continental or Mr. Berry.

The following table sets forth information with respect to beneficial ownership of our Common Stock at the Record Date May 7, 2013 by our principal executive officers, by each of our directors, and by all executive officers and directors as a group. Except as otherwise noted, the address of each of the following beneficial owners is c/o DGSE Companies, Inc., 15850 Dallas Parkway, Suite 140, Dallas, TX 75248.

| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
|----------------|--------------------------------------|-------------------------------------------|------------------|-------------------|---------------------|-----------------------|-------------------------|
| Title of class | Name and address of beneficial owner | Amount and nature of beneficial ownership | Percent of class | Sole Voting Power | Shared Voting Power | Sole Investment Power | Shared Investment Power |
| Common Stock | William P. Cordeiro (1) | 47,500 | 0.39 | % 47,500 | - | 47,500 | - |
| Common Stock | Craig Alan-Lee (2) | 345,000 | 2.83 | % 345,000 | - | 345,000 | - |
| Common Stock | David S. Rector (3) | 24,150 | 0.20 | % 24,150 | - | 24,150 | - |
| Common Stock | James J. Vierling (4) | 147,000 | 1.21 | % 147,000 | - | 147,000 | - |
| Common Stock | James D. Clem (5) | 47,925 | 0.39 | % 47,925 | - | 47,925 | - |
| Common Stock | C. Brett Burford (6) | 2,000 | 0.02 | % 2,000 | - | 2,000 | - |
| Common Stock | All Directors and Executive Officers | 613,575 | 5.03 | % 613,575 | - | 613,575 | - |

William P. Cordeiro is an outside director, owns 10,000 shares directly and has options to purchase 32,500 shares (1) of our Common Stock. Beneficial ownership also includes 5,000 shares owned by Bartik, Cordeiro & Associates, as to which Dr. Cordeiro has shared voting and investment powers.

(2) Craig Alan-Lee is an outside director, owns 330,000 shares and has options to purchase 15,000 shares of our Common Stock.

(3) David S. Rector is an outside director, owns 14,150 shares and has an option to purchase 10,000 shares of our Common Stock.

(4) James J. Vierling was elected as our Chairman of the Board, CEO and President on October 25, 2012, owns 147,000 shares of our Common Stock and has no options to purchase shares of our Common Stock.

(5)

James D. Clem was elected as a director and COO on December 20, 2011 and owns 47,925 shares and has no options to purchase shares of our Common Stock.

(6) C. Brett Burford was appointed as CFO on August 31, 2012, owns 2,000 shares of Common Stock and has no options to purchase shares of our Common Stock.

BOARD OF DIRECTORS AND COMMITTEES

Board Composition

Our Board is currently composed of five directors. Our Board has determined that William P. Cordeiro, Craig Alan-Lee and David S. Rector are “independent” under the standards of the SEC and the Exchange. Under applicable SEC and Exchange rules, the existence of certain “related person” transactions above certain thresholds between a director and us are required to be disclosed and preclude a finding by our Board that the director is independent. In addition to transactions required to be disclosed under SEC rules, our Board considered certain other relationships in making its independence determinations, and determined in each case that such other relationships did not impair the director’s ability to exercise independent judgment on our behalf.

Our directors are elected at an annual meeting of our shareholders by the holders of shares entitled to vote in the election of directors, except in the case of vacancy, which can be filled by an affirmative vote of a majority of the remaining directors. Each director is elected to serve until the annual meeting of shareholders following his election or until he chooses to resign from his position.

Board Meetings

Our Board meets as often as necessary to perform its duties and responsibilities. During the fiscal year ended December 31, 2012 (“Fiscal 2012”), the Board met twelve times in person or telephonically. All members of our Board were present at and participated in all twelve meetings and all members, other than Mr. Rector, attended the 2012 annual meeting. In addition, our Board acted by written consent five times. Management also periodically conferred with directors between meetings regarding our affairs.

Audit Committee

The Audit Committee, established in accordance with Section 3(a)(58)(A) of the Exchange Act, consisting of three independent directors of our Board, is chaired by William P. Cordeiro, who is also an “audit committee financial expert,” as that term is defined in Item 407(d)(5)(ii) of Regulation S-K, promulgated under the Securities Act. Dr. Cordeiro is “independent,” as defined by the listing standards of the Exchange. The other members of the Audit Committee are David S. Rector and Craig Alan-Lee. The Audit Committee is primarily tasked with overseeing our financial reporting process, evaluation of independent auditors and, where appropriate, exercising its duty to replace our independent auditors. Management is responsible for preparing our financial statements, and the independent

auditors are responsible for auditing those financial statements.

In addition to their regular activities, the Audit Committee is available to meet with the independent auditors, the Chief Executive Officer or the Chief Financial Officer whenever a special situation arises and meets as often as necessary to perform their duties and responsibilities. The charter for the Audit Committee is available under the “Investor Relations” menu in the “DGSE Companies” section of our website at www.DGSE.com. We certify that we have adopted a formal written audit committee charter and that the Audit Committee reviews and reassesses the adequacy of the charter annually.

Audit Committee Report

The Audit Committee has reviewed and discussed the audited financial statements with management and Whitley Penn, our independent registered accounting firm, and all matters required to be discussed by the American Institute of Certified Public Accountants, Professional Standards, Vol. 1, AU Section 380, as adopted by the Public Company Accounting Oversight Board (“PCAOB”) in Rule 3200T.

The Audit Committee has received written disclosures and the letter from Whitley Penn required by applicable rules of the PCAOB regarding Whitley Penn’s communications with the Audit Committee concerning independence, and the Audit Committee has discussed with Whitley Penn its independence.

Based on the review and discussions noted in the preceding two paragraphs, the Audit Committee recommended to the Board that the audited financial statements be included in our annual report on Form 10-K for the fiscal year ended December 31, 2012.

The Audit Committee acts pursuant to our Audit Committee Charter. Each of the members of the Audit Committee qualifies as an independent director under the current listing standards of the Exchange.

Compensation Committee

As of August 31, 2012, the Board approved the creation of a Compensation Committee comprised of our independent directors. The Compensation Committee is chaired by David S. Rector and is primarily concerned with reviewing, approving and determining the compensation of our executive officers to ensure that we employ ethical compensation standards and that our executive officers are fairly compensated based upon their performance and contribution to us. The Compensation Committee meets as often as necessary to perform their duties and responsibilities. The charter for the Compensation Committee is available under the “Investor Relations” menu in the “DGSE Companies” section of our website at www.DGSE.com. We have adopted a formal written Compensation Committee Charter, and the Audit Committee reviews and reassesses the adequacy of the charter annually.

Nominations for Directors

At the end of Fiscal 2012, we were classified as a “controlled company,” as that term is defined by the Exchange, and as of that date, we did not have a Nominating and Corporate Governance Committee or any committee performing similar functions.

All nominees standing for election as a member of our Board were selected by the Board, based on a review of each individual’s background, experience and knowledge of our affairs.

Leadership

Pursuant to our bylaws, the Chairman of our Board shall be and is our Chief Executive Officer. We do not have a lead independent director. Pursuant to our bylaws, the Chairman of our Board and Chief Executive Officer presides, when present, at all meetings of the shareholders and at all meetings of our Board. The Chairman of our Board and Chief Executive Officer generally supervises over our affairs, shall have general and active control of all of our business and shall see that all orders and resolutions of our Board and our shareholders are carried into effect. We have determined this leadership structure appropriate given the need for a centralized model of oversight.

Risk Oversight

Like other companies, we face a variety of risks, including investment risk, liquidity risk and operational risk. Our Board believes an effective risk management system should (i) timely identify the material risks that we face, (ii) communicate necessary information with respect to material risks to senior executives and, as appropriate, to the Board or the relevant committee of our Board of Directors, (iii) implement appropriate and responsive risk management strategies consistent with our risk profile, and (iv) integrate risk management into decision-making. Our Board is tasked with overseeing risk oversight, and periodically meets with management and advisors regarding the adequacy and effectiveness of our risk management processes and to analyze the most likely areas of future risk for us. In addition to the formal compliance program, our Board encourages management to promote a corporate culture that incorporates risk management into our corporate strategy and day-to-day business operations.

Code of Business Conduct & Ethics and Related Party Transaction Policy

We have adopted a Code of Business Conduct & Ethics, as well as a Related Person Transaction Policy, each of which applies to our directors, executive officers (or persons performing similar functions), employees and certain of our other affiliates, associates and/or related persons. The latest copies of our Code of Business Conduct & Ethics and Related Person Transaction Policy are available under the “Investor Relations” menu in the “DGSE Companies” section of our website at www.DGSE.com. Any transactions between us and our officers, directors, principal shareholders, or other affiliates have been and will be on terms no less favorable to us than the Board believes could be obtained from unaffiliated third parties on an arms-length basis. We intend to disclose future amendments to these policies, or waivers of such provisions, at the same location on our website and also in public filings.

Shareholder Communication

Shareholders may send communications to our Board, individual directors or officers through our Investor Relations Department, Attn: Mr. C. Brett Burford, Chief Financial Officer and Secretary, c/o DGSE Companies, Inc., 15850 Dallas Parkway, Suite 140, Dallas, TX 75248, or by phone at 972-587-4021. Mr. Burford will forward our shareholders all communications that, in his judgment, are appropriate for consideration by members of our Board. Comments or questions regarding our accounting, internal controls or auditing matters will be referred to members of the Audit Committee. Comments or questions regarding the nomination of directors and other corporate governance matters will be referred to all members of our Board.

EXECUTIVE OFFICERS

The following table sets forth certain information regarding the current executive officers of DGSE:

| Name | Age | Employee or Director Since | Position |
|-------------------|-----|----------------------------|--------------------------------------------------------------------------------------------------------|
| James J. Vierling | 50 | 2011 | Chairman of the Board, Chief Executive Officer and President of DGSE Companies, Inc., President of SBT |
| C. Brett Burford | 46 | 2012 | Chief Financial Officer and Secretary of DGSE Companies, Inc. |
| James D. Clem | 37 | 2008 | Director and Chief Operating Officer of DGSE Companies, Inc. |

James J. Vierling replaced William Oyster as our Chief Executive Officer, President, Chairman of the Board and Principal Executive Officer on October 25, 2012. Mr. Vierling was elected to the Board because of his extensive jewelry industry and other related experience. Mr. Vierling had previously served as the President of SBT since 2009, a wholly-owned subsidiary of DGSE Companies, Inc. SBT was acquired by us on September 14, 2011 in an acquisition from NTR, our largest vendor and largest shareholder. Prior to joining SBT, from 2005 until 2009, Mr. Vierling was Chief Marketing Officer and Strategic Planner of A-1 Premium Acceptance, an installment loan company. Mr. Vierling holds a BA in economics from the University of Missouri.

C. Brett Burford was appointed as our Chief Financial Officer, Principal Financial Officer and Chief Accounting Officer on August 31, 2012. Mr. Burford replaced Matthew Auger, who, until the date of Mr. Burford's appointment, had served as our Interim Chief Financial Officer since November 17, 2011. The Board chose Mr. Burford for these positions because of Mr. Burford's extensive 22 years of experience in finance, strategic planning, regulatory

compliance and corporate governance. From 2008 to 2011, Mr. Burford served as Chief Financial Officer of Craftmade International, Inc., a publicly-traded producer of home décor items, where Mr. Burford helped lead negotiations of the sale of Craftmade to a strategic buyer in late 2011. Prior to that, Mr. Burford worked at Cadbury Schweppes Americas Beverages, the U.S. soft-drink division of London-based Cadbury Schweppes, PLC, which is now separately-traded on the NYSE as Dr Pepper Snapple Group. Mr. Burford served in a variety of positions at Dr. Pepper Snapple Group from 1997 to 2008, including as Vice President, Finance from 2006 to 2008, and as Vice President, Strategic Planning from 2003 to 2005. Mr. Burford received a B.S. in Finance with Minors in Accounting and Management Information Systems from Oklahoma State University in 1989, a Masters of Business Administration from the University of Texas at Dallas in 1996 and a Masters of Liberal Arts from Southern Methodist University in 2004.

James D. Clem has served as a director and Chief Operating Officer of DGSE Companies, Inc. since December, 2012. Mr. Clem was elected to the Board because of his extensive jewelry and precious metal industry experience and other related experience. Prior to his current position, Mr. Clem had served as our Vice President of Sales and Marketing since 2008. Prior to 2008, Mr. Clem was with the Heritage Organization, LLC, an estate planning firm, for seven years as Vice President of Sales and Marketing and then Chief Operating Officer. Mr. Clem holds a B.B.A. in business from the University of Texas at Arlington.

EXECUTIVE COMPENSATION

Our Board is responsible for establishing and administering our executive compensation and employee benefit programs in the context of our overall goals and objectives. This Board duty has been delegated to the Compensation Committee of our Board of Directors (the “Compensation Committee”) in accordance with the Compensation Committee's Charter. The Compensation Committee reviews the executive compensation program at least annually and approves appropriate modifications to executive officer compensation, including specific amounts and types of compensation. The Compensation Committee is responsible for establishing the compensation of the CEO and executive officers. The Compensation Committee establishes the annual compensation of the non-employee directors and oversees our equity compensation plans, including the administration of our stock-based compensation plans.

The objectives of our compensation program are to (i) provide a competitive, comprehensive compensation package to attract, retain and motivate highly talented personnel at all levels of our organization and (ii) provide incentives and rewards for implementing and accomplishing our short-term and long-term strategic and operational goals and objectives. Therefore, we strive to structure compensation packages that are competitive within the industry, while maintaining and promoting our interests, as well as the interests of our shareholders.

We believe that specific levels of executive compensation should reflect the responsibilities of each position within our company, the relative value of the position and the competition for quality, key personnel in our industry. Our executive compensation program includes three primary components:

Base salary. Base salary is the guaranteed element of an executive’s annual cash compensation. The level of base salary reflects the Compensation Committee’s assessment of the employee’s long-term performance, his or her skill set and the market value of that skill set.

Annual cash bonus opportunities. Performance-based incentive cash bonuses are intended to reward executives for achieving specific financial and operational goals both at a corporate and an individual level.

Long-term incentive awards. Long-term incentives are provided through grants of stock options and performance share awards intended to encourage our executives to take steps that they believe are necessary to ensure our long-term success, and to align their interests with our other shareholders.

Advice of Compensation Consultant

In January of 2012, prior to the formation of our Compensation Committee, our Board, performing the function of a compensation committee, retained an independent compensation consultant, Paradox Compensation Advisors (“Paradox”), to analyze our executive compensation program as compared to our peers. Paradox also advised the Compensation Committee regarding appropriate elements of a competitive executive compensation structure, including fixed and at-risk elements, short-term and long-term incentives, and cash and equity components. In March of 2012, Paradox reported the results of its analysis of our total executive compensation packages for positions held by members of our executive leadership team, as well as specific components of those packages, as compared to executives holding similar positions at similarly-sized companies and/or labor market peers in related industries.

The Paradox report indicates that our base salaries and total cash compensation (including bonuses) for the current executive leadership team members are generally below the 25th percentile, compared to our peers. The survey results also indicate that our long-term equity incentive awards are significantly below market, in all cases being below the 25th percentile range, compared to our peers. Paradox also advised that, with respect to equity incentives for executive management, there has been a recent shift from granting employee stock options only, to awarding restricted stock units or performance-based stock awards.

Due to the significant changes in our executive leadership during 2011 and 2012, all three named executives received initial or revised compensation agreements during Fiscal 2012. The Compensation Committee’s decisions regarding executive compensation for 2012 reflected its continued desire to bring our executive compensation program more in line with our peers.

Components of 2012 Executive Officer Compensation

Our executive compensation program is comprised of both fixed and variable elements, with both cash and equity components, including a base salary and annual cash incentives and bonus opportunities. Currently only Mr. Vierling and Mr. Burford have cash bonuses specifically designated as part of their compensation agreements, although Mr. Clem is able to receive a cash bonus at the discretion of the Compensation Committee. Currently only Mr. Vierling has a specified equity bonus as part of his compensation plan, but, based on the Paradox survey, the Compensation Committee is committed to bring the executive leadership team more in line with its peer group in terms of long-term equity-based compensation.

Summary Compensation Table

The following tables and discussion sets forth the compensation paid or accrued to our Chief Executive Officer (or person acting in a similar capacity), and our two most highly compensated executive officers other than our Chief Executive Officer, for all services rendered to us by these individuals in all capacities for Fiscal 2012 and the fiscal year ended December 31, 2011 (“Fiscal 2011”).

| Name and Principal Position | Fiscal Year | Salary(\$) | Bonus(\$) | All Other Compensation (1) | Total Compensation |
|----------------------------------------------|-------------|------------|-----------|----------------------------|--------------------|
| William H. Oyster CEO, President & COO(2) | 2011 | 284,519 | 106,250 | - | 396,169 |
| | 2012 | 404,808 | 106,250 | - | 511,058 |
| James J. Vierling CEO(3) | 2011 | 109,039 | - | - | 109,039 |
| | 2012 | 425,110 | - | - | 425,110 |
| James D. Clem COO(4) | 2011 | 152,331 | 35,000 | - | 187,331 |
| | 2012 | 225,545 | 35,000 | - | 260,545 |
| C. Brett Burford CFO(5) | 2011 | - | - | - | - |
| | 2012 | 66,846 | 40,000 | - | 106,846 |

(1) No named executive received perquisites or Other Compensation that in aggregate exceeded \$10,000.

William H. Oyster was elected by the Board to the role of Chairman of the Board and CEO upon the resignation of Dr. L. S. Smith, our former Chairman of the Board and CEO, on October 31, 2011. Prior to this election, Mr. Oyster served as our President and COO. Mr. Oyster served as our Chairman of the Board and CEO until October 25, 2012.

- (3) James J. Vierling was elected as our Chairman of the Board, CEO and President on October 25, 2012.
- (4) James D. Clem was appointed the position of COO and Secretary on December 20, 2011.
- (5) C. Brett Burford was appointed the position of CFO on August 31, 2012.

Employment Agreements

During Fiscal 2012, we entered into employment agreements with certain of our named executive officers, each of which is described below.

James J. Vierling. On October 25, 2012, DGSE and Mr. Vierling entered into that certain Employment Agreement, dated October 25, 2012, by and between DGSE and Mr. Vierling, which has an initial term of three years, and in consideration for Mr. Veirling's service, (i) DGSE will pay Mr. Vierling a salary of \$535,000 per year; (ii) beginning in 2013, Mr. Vierling shall be eligible for a performance bonus in an amount equal to 25 percent of his annual salary if certain performance targets are met and (iii) Mr. Vierling shall be entitled, so long as he remains an employee of DGSE, to receive grants of an option to purchase 50,000 shares of our Common Stock per year.

C. Brett Burford. Pursuant to a written offer letter, and in consideration for Mr. Burford's service, DGSE (i) shall pay Mr. Burford a salary of \$220,000 per year; (ii) may pay Mr. Burford a performance bonus for the 2012 fiscal year of up to \$40,000, based upon the achievement of mutually-agreed upon goals with respect to the restatement of our financial statements, which bonus was subsequently paid; (iii) may pay Mr. Burford a performance bonus for the 2013 fiscal year and future fiscal years of up to 25 percent of Mr. Burford's annual salary, based upon the achievement of goals which shall be mutually-agreed upon annually; and (iv) shall grant to Mr. Burford options to purchase shares of our Common Stock insofar as such option grants are commensurate with those granted to other senior-level management. Mr. Burford is an at-will employee of DGSE, and we may reassign Mr. Burford, terminate Mr. Burford's employment or change Mr. Burford's compensation at any time with or without cause.

James D. Clem. DGSE and Mr. Clem have entered into that certain Employment Agreement, dated January 1, 2012, by and between Mr. Clem and DGSE, as amended, in which we have agreed to pay Mr. Clem an annual salary of \$325,000. Under the terms of Mr. Clem's Employment Agreement, as amended, Mr. Clem is not entitled to any mandatory retention bonus. Mr. Clem is eligible to receive a performance bonus at the discretion of our Board of Directors upon the completion of the fiscal year ending December 31, 2013.

Outstanding Equity Awards at Fiscal Year End

We granted no stock awards, stock option awards, or non-equity incentive compensation awards (other than the above bonuses) to our named executive officers or directors in Fiscal 2012 or Fiscal 2011.

The following table sets forth information concerning unexercised options and stock that has not vested for each named executive officer and director as of the end of Fiscal 2012.

| Name and Principal Position | Number of Securities Underlying Unexercised Options (#) | Option Exercise Price (\$) | Option Expiration Date | Number of shares or units of stock that have not vested (#) |
|-----------------------------------------------------------|---------------------------------------------------------|------------------------------|--------------------------|-------------------------------------------------------------|
| James J. Vierling CEO, Director, Chairman of the Board | - | - | - | - |
| James D. Clem COO, Director | - | - | - | - |
| C. Brett Burford CFO | - | - | - | - |
| Craig Alan-Lee Director | 5,000 10,000 | 2.82 6.00 | (1) (1) | - - |
| David S. Rector Director' | 10,000 | 6.00 | (1) | - |
| William P. Cordeiro Director | 15,000 5,000 2,500 10,000 | 2.25 2.82 4.19 6.00 | (1) (1) (1) (1) | - - - - |

- (1) Options expire 180 days after service to DGSE ends.

Compensation of Directors

Our directors are responsible for guiding and supervising our business and affairs. Recent developments in corporate governance and financial reporting have resulted in an increased involvement of public company directors. Our Board committees—Audit and Compensation—are composed exclusively of independent directors. The many responsibilities and risks and the substantial time commitment of being a director of a public company require that we provide adequate compensation to ensure our directors' continued performance.

Dr. Cordeiro received four quarterly payments of \$5,000 as Chairman of our audit committee in both Fiscal 2012 and Fiscal 2011. Mr. Rector and Mr. Alan-Lee received four quarterly payments of \$4,500 as independent directors in both Fiscal 2012 and Fiscal 2011. Our directors do not receive meeting fees for Board or committee meeting attendance. In addition to the quarterly payments, we reimburse our directors for their reasonable expenses incurred while attending meetings of our Board and its Committees or conducting other company business. We do not provide any health insurance, retirement or other benefit programs to our independent directors.

We did not provide equity compensation for our independent directors in Fiscal 2012 or Fiscal 2011. Our employee directors receive no separate compensation for their services as directors.

The following table sets forth the total compensation paid to our directors for their service on our Board and committees of the Board during Fiscal 2012 and Fiscal 2011.

| Name | Fiscal Year | Fees Paid(\$) | All Other Compensation (\$) | Total(\$) |
|-----------------------|-------------|---------------|-----------------------------|-----------|
| William P. Cordeiro | 2012 | 20,000 | - | 20,000 |
| | 2011 | 20,000 | - | 20,000 |
| Craig Alan-Lee | 2012 | 18,000 | - | 18,000 |
| | 2011 | 18,000 | - | 18,000 |
| David Rector | 2012 | 18,000 | - | 18,000 |
| | 2011 | 18,000 | - | 18,000 |
| James D. Clem (1) | 2012 | - | - | - |
| | 2011 | - | - | - |
| James J. Vierling (2) | 2012 | - | - | - |
| | 2011 | - | - | - |

(1) James D. Clem was elected as a director and appointed COO on December 20, 2011.

(2) James J. Vierling was elected as a director and our Chairman of the Board and appointed CEO and President on October 25, 2012.

Equity Compensation Plan Information

On June 27, 2006 our shareholders approved the adoption of the 2006 Equity Incentive Plan (the “2006 Plan”) which reserved 750,000 shares of our Common Stock for issuance as part of equity compensation. We subsequently granted options to purchase 150,000 shares of our Common Stock pursuant to the 2006 Plan, of which 100,000 have been exercised, 20,000 have expired, and 30,000 remain outstanding. As a result, there are 620,000 shares of our Common Stock available for future grants under the 2006 Plan, which excludes shares of our Common Stock underlying options that have either been exercised or remain outstanding.

On June 21, 2004, our shareholders approved the adoption of the 2004 Stock Option Plan (the “2004 Plan”) which reserved 1,700,000 shares of our Common Stock for issuance upon exercise of options to purchase our Common Stock. We granted options to purchase an aggregate of 1,459,634 shares of our Common Stock under the 2004 Plan to certain of our officers, directors, key employees and certain other individuals who provided us with goods and services. Each option vested on either January 1, 2004 or immediately upon issuance thereafter. The exercise price of

each option issued pursuant to the 2004 Plan is equal to the market value of our Common Stock on the date of grant, as determined by the closing bid price for our Common Stock on the Exchange on the date of grant or, if no trading occurred on the date of grant, on the last day prior to the date of grant on which our securities were listed and traded on the Exchange. Of the options issued under the 2004 Plan, as of December 31, 2012, 845,634 have been exercised, 271,500 have expired, and 342,500 remain outstanding. Our Board has determined not to make any further issuances pursuant to the 2004 Plan, and as a result there are zero options to purchase our Common Stock available for future grants under the 2004 Plan.

The following table summarizes options outstanding as of December 31, 2012:

| Plan Category | Column (a): Number of securities to be issued upon exercise of options | Column (b): Weighted average exercise price of outstanding options | Column (c): Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|------------------------------------------------------------|---------------------------------------------------------------------------|-----------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Equity compensation plans approved by security holders | 372,500 | 2.55 | 620,000 |
| Equity compensation plans not approved by security holders | None | - | None |
| | 372,500 | 2.55 | 620,000 |

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

From time to time, we engage in business transactions with our controlling shareholder, NTR and other related parties. Set forth below in the section entitled “Related Party Transactions” is a summary of such transactions.

Controlling Shareholder

NTR holds 5,037,642 shares of our Common Stock. NTR has notified us that intends to transfer a substantial portion of its holdings from NTR to Elemetal, as more fully described in the Schedule 13D jointly filed by NTR and Elemetal on January 2, 2013 (the “NTR-Elemetal Schedule 13D”). However, as of the Record Date, the transfer of shares of our Common Stock from NTR to Elemetal contemplated by the NTR-Elemetal Schedule 13D has not been completed on our books and records. As a consequence, as of the Record Date, NTR remains the holder of 5,037,642 shares of our Common Stock, and Elemetal holds 0 shares of our Common Stock. Additionally, NTR holds a proxy to vote 1,520,812 shares of our Common Stock held by Dr. L. S. Smith, which will expire May 25, 2014. Effective January 7, 2013, with our consent, NTR initiated the transfer of the NTR Option to Elemetal. However, as of the Record Date, the transfer of the NTR Option has not been effected on our books and records. The NTR Option is vested and exercisable.

Related Party Transactions

DGSE has a corporate policy governing the identification, review, consideration and approval or ratification of transactions with related persons, as that term is defined in the Instructions to Item 404(a) of Regulation S-K, promulgated under the Securities Act (a "Related Party"). Under this policy, all Related Party transactions are identified and approved prior to consummation of the transaction to ensure they are consistent with DGSE's best interests and the best interests of our stockholders. Among other factors, our Board of Directors considers the size and duration of the transaction, the nature and interest of the of the Related Party in the transaction, whether the transaction may involve a conflict of interest and if the transaction is on terms that are at least as favorable to DGSE as would be available in a comparable transaction with an unaffiliated third party. Our Board of Directors reviews all Related Party transactions at least annually to determine if it is in DGSE's best interests and the best interests of our stockholders to continue, modify, or terminate the Related Party transactions. DGSE's Related Party Transaction Policy is available for review in its entirety under the "Investor Relations" menu in the "DGSE Companies" section of our website at www.DGSE.com.

NTR is our largest shareholder. In 2012, NTR was also DGSE's primary refiner and bullion trading partner. In 2012, 43 percent of sales and 22 percent of purchases were transactions with NTR, and in 2011 these transactions represented 41 percent of our sales and 23 percent of our purchases. As of December 31, 2012, we were obligated to pay \$1,278,000 to NTR as a trade payable.

On July 19, 2012, we entered into the Loan Agreement with NTR, pursuant to which NTR agreed to provide us with a guidance line of revolving credit in an amount up to \$7,500,000. The Loan Agreement provides that the Loan Agreement will terminate—and DGSE’s obligations (the “Obligations”) will be due and payable—upon the earlier of (i) August 1, 2014, (ii) the date that is twelve months after DGSE receives notice from NTR demanding the repayment of the Obligations, (iii) the date the Obligations are accelerated in accordance with the terms of the Loan Agreement or (iv) the date on which the commitment terminates under the Loan Agreement. In connection with the Loan Agreement, we granted a security interest in the respective personal property of each of our subsidiaries. The loan carries an interest rate of 2 percent per annum for all funds borrowed pursuant to the Loan Agreement. Proceeds received by DGSE pursuant to the terms of the Loan Agreement were used for repayment of all outstanding financial obligations incurred in connection with that certain Loan Agreement, dated as of December 22, 2005, between DGSE and Texas Capital Bank, N.A., and additional proceeds are expected to be used as working capital in the ordinary course of business. As of December 31, 2012, the outstanding balance of the loan was \$3,583,358.

Estate Gold and Silver, LLC (“Estate Gold”) is 25 percent owned by James Vierling, DGSE’s Chief Executive Officer and Chairman, and operates five stores in Oklahoma, primarily focused on buying gold, but also engaging in retail sales of jewelry and bullion. We have an agreement with Estate Gold to provide operations management services, consisting of: (i) the receipt, inventorying, and re-sale of Estate Gold purchases; (ii) the management of Estate Gold’s payroll, insurance, accounts payable and receivable; (iii) the maintenance of and updates to Estate Gold’s business software; (iv) maintenance of the Estate Gold website; and (v) financial reporting of Estate Gold to its owners. We also engage in the purchase or sale of jewelry, bullion and diamonds to Estate Gold, from time to time in the normal course of business. During Fiscal 2012, we received \$183,650 in fees for services from Estate Gold, and sold \$274,624 in products to them. We also purchased \$96,116 in product from Estate Gold.

Kristen Oyster is the brother of William Oyster, our former Chief Executive Officer and Chairman, and is employed by us as the head of our numismatic operations. Kristen Oyster received \$176,733 in compensation from us in Fiscal 2012.

Our Audit Committee has reviewed these transactions and deemed them to be on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances.

Legal Proceedings

On April 16, 2012, we filed a Current Report on Form 8-K disclosing that our Board had determined the existence of the accounting irregularities beginning approximately during the second calendar quarter of 2007 and continuing in periods subsequent thereto (the “Accounting Irregularities”), which could affect financial information reported since that time. On April 16, 2012, we also announced that it had engaged forensic accountants to analyze the Accounting Irregularities, and that financial statements and information reported since the inception of the Accounting Irregularities, believed to begin in the second calendar quarter of 2007, should not be relied upon. We brought the

Accounting Irregularities to the attention of the SEC in a letter dated April 16, 2012. On June 18, 2012, we received written notice that the SEC had initiated a private investigation into the Accounting Irregularities, to determine whether any persons or entities had engaged in any possible violations of the federal securities laws. We have cooperated fully, and continue to cooperate fully, with the SEC staff in the investigation. This investigation is still pending as of the date of the filing of this Proxy Statement, and there can be no certainty as to the outcome of this investigation, or to the findings of the SEC.

Also, in connection with the Accounting Irregularities, and the subsequent halt in trading of our Common Stock on the Exchange, we have received notice of two lawsuits that have been filed. The first, Civil Action No. 3:12-cv-3664 filed in the United States District Court for the Northern District of Texas, on September 7, 2012, entitled Grant Barfuss, on behalf of himself and all others similarly situated vs. DGSE Companies, Inc.; L. S. Smith, John Benson and William Oyster. This is a complaint alleging violations of the securities laws and seeks unspecified damages. Plaintiffs allege that certain public filings in 2010 and 2011 were false and misleading. The second suit, Case No. 3:12-cv-03850 in the United States District Court for the Northern District of Texas, was filed on September 21, 2012, by Jason Farmer, Derivatively on Behalf of Nominal Defendant DGSE Companies, Inc., Plaintiff, v. William H. Oyster, James D. Clem, William Cordeiro, Craig Alan-Lee, David Rector, L. S. Smith, and John Benson, Defendants, and DGSE Companies, Inc., Nominal Defendant. This suit has been filed against DGSE, as a nominal defendant, and against certain and former officers and directors. The plaintiff asserts that certain proxy statements were false and misleading, that the defendants breached fiduciary duties owed to DGSE, for abuse of control, and seeks unspecified compensatory and exemplary damages, along with certain corporate governance changes, for the benefit of DGSE. DGSE intends to defend itself vigorously in these matters.

We are currently discussing, both internally among the members of our Board of Directors and with our outside counsel, whether it is in our best interest and in the best interests of our shareholders to pursue legal action against those officers and providers of professional services who were involved in the Accounting Irregularities. We have not made any determinations on this matter as of the date of this Proxy Statement.

The Texas Comptroller of Public Accounts (the "Comptroller") conducted a sales and use tax audit of DGSE with respect to the period March 1, 2006 through November 30, 2009 and subsequently sent a Notification of Audit Results, by letter dated December 17, 2010, asserting that we owe an amount of tax due, plus penalties and interest. We submitted a request for redetermination to the Comptroller by letter dated January 13, 2011. By letter dated August 25, 2011, the Comptroller stated that our request for a redetermination hearing has been granted. The hearing has not yet taken place.

**PROPOSAL 2: RATIFICATION OF THE APPOINTMENT OF
WHITLEY PENN AS INDEPENDENT AUDITORS OF DGSE
FOR THE FISCAL YEAR ENDING 2013**

The Audit Committee has appointed Whitley Penn as our independent registered accountants to audit our financial statements for the fiscal year ending December 31, 2013, and has further directed that management submit the selection of independent registered accountants for ratification by our stockholders at the annual meeting. Stockholder ratification of the selection of Whitley Penn is not required by our bylaws or otherwise. However, we are submitting the selection of Whitley Penn to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the Audit Committee will reconsider whether or not to retain Whitley Penn. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of a different independent accounting firm at any time during the year if it is determined that such a change would be in the best interests of DGSE and our stockholders.

Representatives of the firm of Whitley Penn are expected to be present at our annual meeting and will have an opportunity to make a statement, if they so desire, and will be available to respond to appropriate questions.

In accordance with the requirements of the Sarbanes-Oxley Act of 2002 and the Audit Committee's charter, all audit and audit-related work and all non-audit work performed by our independent accountants, Whitley Penn, is approved in advance by the Audit Committee, including the proposed fees for such work. The Audit Committee is informed of each service actually rendered.

The following table presents fees for the audits of our annual Consolidated Financial Statements for Fiscal 2012 and Fiscal 2011. This table includes fees for professional services rendered by our current independent auditors, our past independent auditors and other firms who provided services related to the production of our restated Consolidated Financial Statements for Fiscal 2011 and 2010.

| Auditor/Service Provider | 2012 | 2011 |
|---------------------------------------|-----------|-----------|
| Audit Fees - Cornwell Jackson(1) | \$196,848 | \$158,774 |
| Audit Fees - Whitley Penn(2) | \$668,368 | \$- |
| Total Audit Fees | \$865,216 | \$158,774 |
| Audit Related Fees - Cornwell Jackson | \$- | \$3,687 |
| Audit Related Fees - Whitley Penn | \$- | \$- |
| Total Audit Related Fees | \$- | \$3,687 |

| | | |
|----------------------------------------------------------|-----------|-----------|
| Tax Fees - Cornwell Jackson | \$- | \$1,635 |
| Tax Fees - Whitley Penn | \$23,000 | \$- |
| Total Tax Fees | \$23,000 | \$1,635 |
| All Other Fees - Cornwell Jackson | \$- | \$30,549 |
| All Other Fees - Whitley Penn | \$1,895 | \$- |
| Total All Other Fees | \$1,895 | \$30,549 |
| Total Fees to Independent Auditors and Service Providers | \$890,111 | \$194,645 |

(1) Cornwell Jackson and Company, P.C. was dismissed as our independent auditors on May 29, 2012. Whitley Penn was engaged as our independent auditors on May 29, 2012, to provide audit services in relation to (2) our Fiscal 2010 and Fiscal 2011 consolidated financial statements, but no services were rendered during those periods.

The amounts for audit fees include generally the fees charged for (i) the audit of our annual Consolidated Financial Statements and (ii) the reviews of our quarterly financial statements. The tax fees were primarily for tax return preparation and tax-related services.

Applicable law and regulations provide an exemption that permits certain services to be provided by our outside auditors even if they are not pre-approved. We have not relied on this exemption at any time since the Sarbanes-Oxley Act was enacted.

We engaged the accounting firm of Cornwell Jackson and Company, P.C. (“Cornwell Jackson”) on October 11, 2004, to review and audit our financial statements. After May 18, 2012, Cornwell Jackson provided no further services to us, and Cornwell Jackson was dismissed as our independent accountants by our Board on May 29, 2012. In order to comply with the requirements of the SEC Practice Section, on June 1, 2012, Cornwell Jackson submitted the notification letter indicating that the client-auditor relationship had ceased effective May 29, 2012.

No report of Cornwell Jackson on our financial statements for either of our past two fiscal years contained any adverse opinion or disclaimer of opinion or was qualified or modified as to uncertainty, audit scope or accounting principles.

During our two most recent fiscal years and through and including any interim period preceding Cornwell Jackson’s dismissal by our Board of Directors on May 29, 2012, there were no disagreements with Cornwell Jackson on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreement(s), if not resolved to the satisfaction of Cornwell Jackson, would have caused it to make reference thereto in any report.

Cornwell Jackson, in a letter to us dated May 26, 2011 and in connection with its audit of our financial statements included in our Annual Report on Form 10-K for Fiscal 2010, advised us that we did not have the internal controls necessary for us to develop reliable financial statements (the “Letter”). Our Board discussed the subject matter of the Letter with Cornwell Jackson, and we have authorized Cornwell Jackson to respond fully to the inquiries of any successor accounting firms concerning the subject matter of the Letter. There were no disagreements with Cornwell Jackson regarding the Letter or the subject matter of the Letter. Other than the Letter, during our two most recent fiscal years and through and including any interim period preceding Cornwell Jackson’s dismissal by our Board on May 29, 2012, there were no “reportable events” (as that term is defined in Item 304(a)(1)(v) of Regulation S-K promulgated under the Securities Act).

We requested that Cornwell Jackson furnish us with a letter addressed to the SEC stating whether or not it agrees with the above statements in this Proposal 2. A copy of such letter to the SEC is filed as Exhibit 16.1 to the Current Report on Form 8-K filed with the SEC on June 4, 2012, and is incorporated herein by reference.

On May 29, 2012, we engaged the firm of Whitley Penn as our principal independent accountant to audit our financial statements. The members of our Board of Directors unanimously approved the engagement of Whitley Penn.

Prior to the engagement of Whitley Penn, neither we nor any person on our behalf consulted Whitley Penn regarding either (i) the application of accounting principles to a specified completed or proposed transaction or the type of audit

opinion that might be rendered on our financial statements, or (ii) any matter that was the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K, promulgated under the Securities Act and the related instructions to such Item) or a reportable event (as defined in Item 304(a)(1)(v) of Regulation S-K, promulgated under the Securities Act).

Vote Required

The affirmative vote of a majority of the votes cast at the meeting at which a quorum representing a majority of all outstanding shares of our Common Stock is present and voting, either in person or by proxy, is required for the ratification of our independent registered accountants.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE RATIFICATION OF THE APPOINTMENT OF Whitley Penn AS INDEPENDENT AUDITORS OF DGSE FOR THE FISCAL YEAR ENDING December 31, 2013.

PROPOSAL 3: ADVISORY VOTE TO APPROVE

NAMED EXECUTIVE COMPENSATION

We are requesting our stockholders to provide advisory approval of the compensation of our named executive officers as disclosed in the Executive Compensation section of this Proxy Statement. This non-binding advisory vote is commonly referred to as a “say-on-pay” vote.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE “FOR” APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS AS DISCLOSED IN THIS PROXY STATEMENT.

Background on Proposal

In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) and related SEC rules, stockholders are being given the opportunity to vote at the Annual Meeting on an advisory resolution regarding the compensation of our named executive officers (commonly referred to as “say-on-pay”) as disclosed in this Proxy Statement pursuant to the compensation disclosure rules of the SEC. This vote is required by Section 14A of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The advisory resolution which will be presented and voted upon at the Annual Meeting is as follows:

RESOLVED, that the stockholders of DGSE Companies, Inc. hereby approve, on an advisory basis, the current compensation of our named executive officers, as disclosed in the Executive Compensation section of the Proxy Statement.

Effects of the Advisory Vote

Because the vote on this proposal is advisory in nature, it will not affect any compensation already paid or awarded to our named executive officers and will not be binding on the Board of Directors or the Compensation Committee. However, the Compensation Committee and the Board of Directors will consider the outcome of the vote when making future executive compensation decisions.

Vote Required

The resolution approving, on an advisory basis, the current compensation of our named executive officers will be approved if a majority of the votes cast at the Annual Meeting are voted in favor of the proposal, assuming a quorum is present. A properly executed proxy marked "ABSTAIN" with respect to the proposal will not be voted or treated as a vote cast, although it will be counted for purposes of determining whether a quorum is present. Accordingly, an abstention will not affect the outcome of the proposal. Brokers are not entitled to use their discretion to vote uninstructed proxies with respect to the proposal, any such broker non-votes will not be deemed a vote cast.

Discussion

Our Compensation Committee and our Board of Directors, who are responsible for designing and administering our executive compensation program, have designed our current executive compensation program to provide a competitive and internally equitable compensation program and benefits package that reflects company performance, job complexity and the value provided, while also promoting long-term retention, motivation and alignment with the long-term interests of our stockholders.

We encourage you to carefully review the Executive Compensation section of this Proxy Statement including the compensation tables and narrative discussion set forth on pages 10 through 12 of this Proxy Statement. We are asking you to indicate your support for the compensation of our Named Executive Officers as described in this Proxy Statement. This vote is not intended to address any specific item of compensation but rather the overall compensation of our named executive officers. Accordingly, we are asking you to vote, on an advisory basis, "FOR" the foregoing resolution at the Annual Meeting.

**PROPOSAL 4: ADVISORY VOTE ON FREQUENCY
OF FUTURE “SAY-ON-PAY” ADVISORY VOTES**

At the Annual Meeting, stockholders will be given the opportunity to vote on whether they prefer to have future “say-on-pay” votes occur (i) every year, (ii) every two years or (iii) every three years.

**THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE IN FAVOR OF
HOLDING FUTURE “SAY-ON-PAY” ADVISORY VOTES EVERY THREE YEARS.**

Background on Proposal

In accordance with the Dodd-Frank Act and related SEC rules, stockholders are being given the opportunity to vote at the Annual Meeting on an advisory resolution regarding the compensation of our named executive officers (see Proposal Three above in this Proxy Statement). The Dodd-Frank Act and applicable SEC rules also require that, at least once every six years, stockholders be given the opportunity to vote on an advisory resolution regarding the frequency of future “say-on-pay” votes. Specifically, this vote is required by Section 14A of the Exchange Act.

Stockholders may vote to recommend that future “say-on pay” votes be held every year, every two years or every three years. The Board of Directors presently believes that future “say-on-pay” votes should occur every three years. The Board of Directors believes that holding a “say-on-pay” vote every three years is most consistent with our approach to executive compensation in which we seek to enhance our long-term growth and to attract, retain and motivate our executive officers over the long term. The Board of Directors believes a three-year cycle for the advisory vote on executive compensation will provide investors the most meaningful timing alternative by which to evaluate the effectiveness of our executive compensation strategies and their alignment with our business and results of operation. It will also minimize the administrative, compliance and other corporate expenses associated with holding “say-on-pay” votes more frequently (e.g., every year or every two years).

Effects of Advisory Vote

Because the vote on this matter is advisory in nature, it will not be binding on the Board of Directors. However, the Board of Directors will consider the outcome of the vote, along with other factors, when making its decision about the

frequency of future “say-on-pay” votes.

Vote Required

This proposal is being submitted to enable stockholders to express a preference as to whether future “say-on-pay” votes should be held every year, every two years or every three years. The selection that receives a plurality of affirmative votes will be considered the preference of the stockholders. Brokers are not entitled to use their discretion to vote uninstructed proxies with respect to the proposal and any such broker non-votes will not be deemed a vote cast.

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SECTION 16(a) BENEFICIAL OWNERSHIP**REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires our directors and officers and persons who beneficially own more than ten percent of our Common Stock to file with the SEC reports of beneficial ownership on Forms 3 and changes in beneficial ownership of our Common Stock and other equity securities on Forms 4 or 5. SEC regulations require all officers, directors and greater than 10 percent stockholders to furnish us with copies of all Section 16(a) forms they file.

Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to us during, and Forms 5 and amendments thereto furnished to us with respect to, Fiscal 2012, and any written representations from reporting persons that no Form 5 is required, the following table sets forth information regarding each person who, at any time during Fiscal 2012, was a director, officer or beneficial owner of more than 10 percent of our Common Stock who failed to file on a timely basis, as disclosed in the above forms, reports required by Section 16(a) of the Exchange Act during Fiscal 2012:

| Name | Number of Late Reports | Number of Transactions Not Reported On a Timely Basis | Known Failures To File a Required Form |
|------------------|------------------------|-------------------------------------------------------|----------------------------------------|
| NTR Metals, LLC | 1 | 1 | 0 |
| C. Brett Burford | 1 | 0 | 0 |

STOCKHOLDER COMMUNICATIONS AND PROPOSALS

We have adopted a formal process by which stockholders may communicate with our Board of Directors. Our Board recommends that stockholders initiate any communications with the Board in writing and send them in care of the investor relations department by mail to our principal offices at 15850 Dallas Parkway, Suite 140, Dallas, Texas 75248. This centralized process will assist the Board in reviewing and responding to stockholder communications in an appropriate manner. The name of any specific intended Board recipient should be noted in the communication. The Board of Directors has instructed the investor relations department to forward such correspondence only to the intended recipients; however, the Board has also instructed the investor relations department, prior to forwarding any correspondence, to review such correspondence and, in its discretion, not to forward certain items if they are deemed of a personal, illegal, commercial, offensive or frivolous nature or otherwise inappropriate for the Board's consideration. In such cases, that correspondence will be forwarded to our corporate secretary for review and possible response. This information is also contained on our website at www.DGSE.com.

Stockholder proposals made in compliance with Rule 14(a)-8 of the Exchange Act to be presented at our Annual Meeting of Stockholders to be held in 2014, for inclusion in our proxy statement and form of proxy relating to that meeting, must be received on or before January 20, 2014. Stockholder proposals made outside the process describe in Rule 14(a)-8 of the Exchange Act must be received by April 5, 2014. Such stockholder proposals must comply with our bylaws and the requirements of Regulation 14A of the Exchange Act.

Rule 14a-4 of the Exchange Act governs our use of discretionary proxy voting authority with respect to a stockholder proposal that is not addressed in the proxy statement. With respect to our 2014 Annual Meeting of Stockholders, if we are not provided notice of a stockholder proposal by April 5, 2014, we will be permitted to use our discretionary voting authority when the proposal is raised at the meeting, without any discussion of the matter in the proxy statement.

PERSONS MAKING THE SOLICITATION

The enclosed proxy is solicited on behalf of our Board of Directors. We will pay the cost of soliciting proxies in the accompanying form. Our officers may solicit proxies by mail, telephone, telegraph or fax. Upon request, we will reimburse brokers, dealers, banks and trustees, or their nominees, for reasonable expenses incurred by them in forwarding proxy material to beneficial owners of our shares of Common Stock.

OTHER MATTERS

The Board of Directors is not aware of any matter to be presented for action at the meeting other than the matters set forth herein. Should any other matter requiring a vote of stockholders arise, the proxies in the enclosed form confer upon the person or persons entitled to vote the shares represented by such proxies' discretionary authority to vote the same in accordance with their best judgment in the interest of DGSE.

FINANCIAL STATEMENTS

A copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, including financial statements, accompanies this proxy statement. The Annual Report is not to be regarded as proxy soliciting material or as a communication by means of which any solicitation is to be made. A copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, filed with the SEC, is available (excluding exhibits) without cost to stockholders upon written request made to Investor Relations, DGSE Companies, Inc., 15850 Dallas Parkway, Suite 140, Dallas, Texas 75248 or online at our web site: http://www.dgse.com/DGSE_Companies/investor-relations.aspx.

By Order of the Board of Directors,

/s/ C. Brett Burford
C. BRETT BURFORD
Secretary

April 30, 2013