

DGSE COMPANIES INC  
Form 10-Q  
November 12, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

**Form 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2015**

**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** **88-0097334**  
*(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)*

**15850 Dallas Parkway, Suite 140**

**Dallas, Texas 75248**

**(972) 587-4049**

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

N/A

(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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 November 12, 2015:

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Class	Outstanding
Common stock, \$0.01 par value per share	12,296,446

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

## DGSE COMPANIES, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

	September 30, 2015 (Unaudited)	December 31, 2014
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 1,342,152	\$ 2,184,435
Trade receivables, net of allowances	167,074	904,076
Inventories	10,678,270	11,144,157
Prepaid expenses	171,730	104,513
Assets related to discontinued operations	-	49,729
 Total current assets	 12,359,226	 14,386,910
Property and equipment, net	4,308,762	4,365,767
Intangible assets, net	17,230	27,568
Other assets	125,646	128,356
 Total assets	 \$ 16,810,864	 \$ 18,908,601
 <b>LIABILITIES</b>		
Current Liabilities:		
Current maturities of long-term debt	\$ 1,623,098	\$ 131,003
Current maturities of capital leases	11,942	11,529
Accounts payable-trade	4,237,211	5,831,736
Accrued expenses	1,196,205	1,541,552
Customer deposits and other liabilities	2,443,596	1,082,778
Liabilities related to discontinued operations	212,485	303,564
 Total current liabilities	 9,724,537	 8,902,162
Line of credit, related party	2,303,359	2,303,359
Long-term debt, less current maturities	16,729	1,616,237

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Total liabilities	12,044,625	12,821,758
Commitments and contingencies		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$0.01 par value; 30,000,000 shares authorized; 12,296,446 and 12,238,846 shares issued and outstanding	122,964	122,388
Additional paid-in capital	34,267,577	34,231,271
Accumulated deficit	(29,624,302 )	(28,266,816 )
Total stockholders' equity	4,766,239	6,086,843
Total liabilities and stockholders' equity	\$ 16,810,864	\$ 18,908,601

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

## DGSE COMPANIES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue:				
Sales	\$ 16,523,826	\$ 17,040,249	\$ 44,341,612	\$ 52,622,968
Cost of goods sold	14,137,085	13,905,844	37,052,512	43,267,708
Gross margin	2,386,741	3,134,405	7,289,100	9,355,260
Expenses:				
Selling, general and administrative expenses	2,689,569	2,930,475	8,108,750	9,634,616
Depreciation and amortization	80,499	105,971	302,831	287,786
	2,770,068	3,036,446	8,411,581	9,922,402
Operating (loss) income	(383,327 )	97,959	(1,122,481 )	(567,142 )
Other expense (income):				
Other (income) expense, net	(3,766 )	12,982	(7,469 )	(44,679 )
Interest expense	84,826	89,240	257,487	258,383
	81,060	102,222	250,018	213,704
Loss from continuing operations before income taxes	(464,387 )	(4,263 )	(1,372,499 )	(780,846 )
Income tax expense (benefit)	18,159	(17,094 )	43,082	29,976
(Loss) income from continuing operations	(482,546 )	12,831	(1,415,581 )	(810,822 )
Discontinued operations:				
Income (loss) from discontinued operations, net of taxes	13,848	166,757	58,095	(3,984,808 )
Net (loss) income	\$ (468,698 )	\$ 179,588	\$ (1,357,486 )	\$ (4,795,630 )
Basic net loss per common share:				
(Loss) income from continuing operations	\$ (0.04 )	\$ 0.00	\$ (0.11 )	\$ (0.06 )
(Loss) income from discontinued operations	-	0.01	-	(0.33 )
Net (loss) income per share	\$ (0.04 )	\$ 0.01	\$ (0.11 )	\$ (0.39 )
Diluted net loss per common share:				



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(Loss) income from continuing operations	\$ (0.04	) \$ 0.00	\$ (0.11	) \$ (0.06	)
(Loss) income from discontinued operations	-	0.01	-	(0.33	)
Net (loss) income per share	\$ (0.04	) \$ 0.01	\$ (0.11	) \$ (0.39	)

Weighted-average number of common shares

Basic	12,296,446	12,223,584	12,268,475	12,209,416
Diluted	12,296,446	12,271,362	12,268,475	12,209,416

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

**DGSE COMPANIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	For the Nine Months Ended September 30,	
	2015	2014
<b>Cash Flows From Operating Activities:</b>		
Net loss	\$(1,357,486 )	\$(4,795,630 )
Income (loss) from discontinued operations, net of tax	58,095	(3,984,808 )
Loss from continuing operations, net of tax	(1,415,581 )	(810,822 )
<b>Adjustments to reconcile loss from continuing operations to net cash used in operating activities of continuing operations:</b>		
Depreciation and amortization	302,831	287,786
Stock based compensation to employees, officers and directors	36,882	39,358
<b>Changes in operating assets and liabilities:</b>		
Trade receivables, net	737,002	(62,276 )
Inventories	465,887	320,964
Prepaid expenses	(67,217 )	(68,380 )
Other assets	2,710	60,511
Accounts payable and accrued expenses	(1,939,872 )	(738,614 )
Customer deposits and other liabilities	1,360,818	(864,725 )
Net cash used in operating activities of continuing operations	(516,540 )	(1,836,198 )
<b>Cash Flows From Investing Activities:</b>		
Purchases of property and equipment	(235,488 )	(141,887 )
Net cash used in investing activities of continuing operations	(235,488 )	(141,887 )
<b>Cash Flows From Financing Activities:</b>		
Repayment of debt	(97,427 )	(91,131 )
Payments on capital lease obligations	(9,573 )	(8,274 )
Repayment of line of credit with related party	-	(80,000 )
Net cash used in financing activities of continuing operations	(107,000 )	(179,405 )
<b>Cash Flows From Discontinued Operations:</b>		
Net cash provided by operating activities of discontinued operations	16,745	1,470,618

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Net change in cash	(842,283 )	(686,872 )
Cash, beginning of period	2,184,435	2,637,726
Cash, end of period	\$ 1,342,152	\$ 1,950,854
Supplemental Disclosures:		
Cash paid during the period for:		
Interest	\$ 149,884	\$ 146,157
Income taxes	\$ -	\$ -
Noncash item:		
Transfer of inventory from discontinued operations	\$ -	\$ 1,524,864

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **(1) Basis of Presentation**

The consolidated interim financial statements of DGSE Companies, Inc., a Nevada corporation, and its subsidiaries (the “Company” or “DGSE”), included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to the Commission’s rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. The Company suggests that these financial statements be read in conjunction with the financial statements and notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (such fiscal year, “Fiscal 2014” and such Annual Report on Form 10-K, the “Fiscal 2014 10-K”). In the opinion of the management of the Company, 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.

### **(2) Principles of Consolidation and Nature of Operations**

DGSE buys and sells jewelry and bullion products to both retail and wholesale customers throughout the United States through its facilities in Illinois, South Carolina, and Texas, and through its various internet sites.

The interim consolidated financial statements have been prepared in accordance with U.S. GAAP and include the accounts of the Company and its subsidiaries. All material intercompany transactions and balances have been eliminated.

### **(3) Critical Accounting Policies and Estimates**

#### **Financial Instruments**

The carrying amounts reported in the consolidated balance sheets for cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value because of the immediate or short-term maturity of these financial instruments. The line of credit, related party does not bear a market rate of interest. Management believes

that, based on the Company's situation at the time the line was negotiated, it could not have obtained comparable financing, and as such cannot estimate the fair value of the line of credit, related party. The carrying amounts reported for the Company's long-term debt, and capital leases approximate fair value because substantially all of the underlying instruments have variable interest rates, which adjust frequently, or the interest rates approximate current market rates. None of these instruments are held for trading purposes.

### **Earnings Per Share**

Basic earnings per common share is computed by dividing net earnings available to holders of the Company's common stock by the weighted average number of common shares outstanding for the reporting period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. For the calculation of diluted earnings per share, the basic weighted average number of shares is increased by the dilutive effect of stock options outstanding determined using the treasury stock method.

### **Recent Accounting Pronouncement**

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients; or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). In July 2015, the FASB voted to approve a one-year deferral to the effective date of ASU 2014-09 to be adopted by all public companies for all annual periods and interim reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements and have not yet determined the method by which the Company will adopt the standard in 2018.

On July 22, 2015, the FASB issued Accounting Standards Update No. 2015-11, *Simplifying the Measurement of Inventory* (ASU 2015-11). ASU 2015-11 requires an entity to measure most inventory at the lower of cost and net realizable value, thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. ASU 2015-11 will not apply to inventories that are measured using either the last-in, first-out (LIFO) method or the retail inventory method. ASU 2015-11 is effective for public entities for financial statements issued for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years; early application is permitted. The Company is evaluating the financial statement implications of adopting ASU 2015-11.

#### (4) Inventories

A summary of inventories is as follows:

	September 30, 2015	December 31, 2014
Jewelry	\$ 9,166,112	\$ 9,755,580
Scrap gold	604,191	536,181
Bullion	598,182	493,368
Rare coins and Other	309,785	359,028
	\$ 10,678,270	\$ 11,144,157

#### (5) Basic and Diluted Average Shares

A reconciliation of basic and diluted weighted average common shares for the three months and nine months ended September 30, 2015 and 2014, is as follows:

	<b>For the Three Months Ended</b>		<b>For the Nine Months Ended</b>	
	<b>September 30, 2015</b>	<b>2014</b>	<b>September 30, 2015</b>	<b>2014</b>
Basic weighted average shares	12,296,446	12,223,584	12,268,475	12,209,416
Effect of potential dilutive securities	-	47,778	-	