

DGSE COMPANIES INC  
Form 10-K  
April 12, 2019

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, DC 20549**

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2018

**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 001-11048

**DGSE COMPANIES, INC.**

(Exact Name of Registrant as Specified in Its Charter)



Edgar Filing: DGSE COMPANIES INC - Form 10-K

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

(Do not check if a smaller reporting company)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to section 13(a) of the Exchange Act

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).  Yes  No

As of June 30, 2018, which is the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of voting and non-voting common equity held by non-affiliates computed by reference to the closing sales price at which the common equity was last sold on the NYSE MKT Exchange (the "Exchange") was \$5,575,820.

As of the close of business on April 5, 2019, there were 26,924,381 shares of DGSE Companies, Inc. common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the registrant's definitive proxy statement for the 2019 Annual Meeting of Stockholders, which definitive proxy statement will be filed by the registrant with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year ended December 31, 2018.

**TABLE OF CONTENTS**

	Page
<b><u>PART I</u></b>	
Item 1. <u>Business</u>	1
Item 1A. <u>Risk Factors</u>	6
Item 1B. <u>Unresolved Staff Comments</u>	12
Item 2. <u>Properties</u>	12
Item 3. <u>Legal Proceedings</u>	13
Item 4. <u>Mine Safety Disclosures</u>	13
<b><u>PART II</u></b>	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	14
Item 6. <u>Selected Financial Data</u>	16
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	16
Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	22
Item 8. <u>Financial Statements and Supplementary Data</u>	22
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	22
Item 9A. <u>Controls and Procedures</u>	23
Item 9B. <u>Other Information</u>	23
<b><u>PART III</u></b>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	24
Item 11. <u>Executive Compensation</u>	24
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	24
Item 13. <u>Certain Relationships and Related Person Transactions, and Director Independence</u>	24
Item 14. <u>Principal Accountant Fees and Services</u>	24
<b><u>PART IV</u></b>	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	25
Item 16. <u>Form 10-K Summary</u>	28
<u>Signatures</u>	

## **PART I**

*Unless the context indicates otherwise, references to “we,” “us,” “our,” “the Company” and “DGSE” refer to the consolidated business operations of DGSE Companies, Inc., the parent, and all of its direct and indirect subsidiaries.*

### **Special Note Regarding Forward-Looking Statements**

This Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (this “Form 10-K”), including but not limited to the section of this Form 10-K entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” information concerning our business prospects or future financial performance, anticipated revenues, expenses, profitability or other financial items, and our strategies, plans and objectives, together with other statements that are not historical facts, includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements generally can be identified by the use of forward-looking terminology, such as “may,” “will,” “would,” “expect,” “intend,” “could,” “estimate,” “should,” “anticipate” or “believe.” We forward-looking statements be subject to the safe harbors created by these laws. All statements other than statements of historical information provided herein are forward-looking and may contain information about financial results, economic conditions, trends, and known uncertainties. All forward-looking statements are based on current expectations regarding important risk factors. Many of these risks and uncertainties are beyond our ability to control, and, in many cases, we cannot predict all of the risks and uncertainties that could cause our actual results to differ materially from those expressed in the forward-looking statements. Actual results could differ materially from those expressed in the forward-looking statements, and readers should not regard those statements as a representation by us or any other person that the results expressed in the statements will be achieved. Important risk factors that could cause results or events to differ from current expectations are described under the section of this Form 10-K entitled “Risk Factors” and elsewhere in this Form 10-K. These factors are not intended to be an all-encompassing list of risks and uncertainties that may affect the operations, performance, development and results of our business. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to release publicly the results of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereon, including without limitation, changes in our business strategy or planned capital expenditures, store growth plans, or to reflect the occurrence of unanticipated events.

## **ITEM 1. BUSINESS.**

### **Overview**

We were originally formed as a corporation in the State of Nevada on September 16, 1965 under the name “Canyon State Mining Corporation of Nevada.” After several name changes through the years, in 2005 we changed our name to DGSE Companies, Inc. Our principal executive offices are located at 13022 Preston Rd., Dallas, Texas 75240. Our telephone number is 972-587-4049. Our primary commercial internet addresses are [www.DGSE.com](http://www.DGSE.com) and [www.CGDEinc.com](http://www.CGDEinc.com), and we also maintain [www.DGSECompanies.com](http://www.DGSECompanies.com) primarily as a corporate information and investor relations website. We hold registered trademarks for the company name “Dallas Gold & Silver Exchange” and the corresponding logo.

We buy and sell jewelry, diamonds, fine watches, rare coins and currency, precious metal bullion products, scrap gold, silver, platinum and palladium as well as collectibles and other valuables. Our customers include individual consumers, dealers and institutions throughout the United States. Our operations are organized around two primary types of customers, retail customers and wholesale customers.

## **Customer Types**

### ***Retail***

As of the fiscal year end December 31, 2018 (“Fiscal 2018”), our products and services were marketed through five retail locations in South Carolina and Texas. In Fiscal 2017, we closed one location in the DFW area. Our retail locations operate under several banners, including Charleston Gold & Diamond Exchange, and Dallas Gold & Silver Exchange, and are supported by websites at [www.CGDEinc.com](http://www.CGDEinc.com) and [www.DGSE.com](http://www.DGSE.com).

Our retail footprint has evolved significantly in recent years, growing and contracting largely in line with changes in the precious metals market. In 2011, as we acquired Southern Bullion, precious metal prices hit all-time highs, but by 2012 the markets had softened significantly. During the year ended December 31, 2013 (“Fiscal 2013”), the precious metals market experienced a significant downturn, as evidenced by a nearly 30% decrease in the price of an ounce of gold, as measured by London PM Fix, between January 1 and December 31, 2013. While prices were more stable in 2014, they remained well below levels reached in 2011. This downturn significantly changed the economics of our business, and led us to further evaluate the number and locations of retail stores, resulting in the closure of all Southern Bullion locations in the first half of Fiscal 2014. The volatility in the price per ounce of gold continued in 2015 Fiscal 2016, rebounding somewhat by August 2016 to \$1,350 an ounce, jumping 26%, only to fall to \$1,147 an ounce, by 2016 year end. The price of gold did rebound once again during 2017 to end at \$1,303 an ounce, at year end. Gold continued to increase to \$1,353 by April of 2018 and once again, receded to \$1,175 in August. The price did rebound to \$1,283 at December 31, 2018. The decrease produced a 1.5% net loss in gold prices from December 31, 2017 to December 31, 2018. The volatility was still prevalent during the year, and the general overall trend was slightly downward during Fiscal 2018.

As noted above, in 2017 we made the decision to close one DFW location when the lease expired at our Sherry Lane store. Since Sherry Lane was located near our flagship store on Preston Road, it was decided to consolidate the smaller one into our flagship location. We do not expect, at this time, to open incremental retail locations in the next 12 months.

### ***Wholesale***

We transact a significant amount of business with wholesalers and other companies in our industry. This wholesale transactional activity occurs at industry-specific trade shows held periodically throughout the year, during in-person and telephonic sales calls, and on industry trade websites that facilitate wholesale trades for our industry.



Products and Services

*Jewelry*

We sell items in every major jewelry category, including bridal jewelry, fashion jewelry, custom-made jewelry, diamonds and other gemstones, watches and findings (jewelry components).

A substantial percentage of our jewelry inventory is purchased directly from our customers at our retail locations. These jewelry items and fine watches are then cleaned, serviced and repaired by our experienced jewelers so that they are in a like-new condition and suitable for resale.

The higher-quality diamonds and gemstones we purchase are certified by the Gemological Institute of America (“GIA”) and other third-party certifying authorities for an independent assessment of their quality. This process aides us in reselling these stones individually or as a component of our custom bridal and fashion jewelry. Mid-quality diamonds and gemstones are often utilized in custom fashion jewelry or packaged with lower-quality stones and sold to wholesalers across the country.

We maintain relationships with numerous commercial consignment vendors across the country who, supply us with new and estate jewelry. This supplements jewelry that we purchase over the counter and enhances our overall jewelry offering. Any sales made from this consignment jewelry stock are settled with our consignment vendors on a weekly or monthly basis.

We also maintain jewelry repair centers in three of our locations, and accept repair, polishing and service orders through all of our retail locations.

Jewelry retailing is highly fragmented and competitive. We compete for jewelry sales primarily against specialty jewelers such as Zales, Jared, and Kay's, as well as other retailers that sell jewelry, including department stores, discount stores, apparel outlets, and internet retailers. The jewelry category competes for a share of our customers' disposable income with other consumer sectors such as electronics, clothing and furniture, as well as travel and restaurants. This competition for consumers' discretionary spending is particularly relevant to gift giving, and also has some relevance with respect to bridal jewelry (e.g. engagement, wedding, and anniversary).

### ***Bullion***

Our bullion trading operation buys and sells all forms of gold, silver, platinum and palladium precious metals products, including United States and other government coins, private mint medallions, art bars and trade unit bars. Retail bullion transactions are conducted with individual consumers at all of our store locations and online at [www.USBullionExchange.com](http://www.USBullionExchange.com). Wholesale bullion transactions are conducted through our main-bullion trading operation in Dallas, Texas, which maintains numerous vendor relationships with major industry wholesalers, mints and institutions.

Bullion products are purchased and sold based on current market pricing for precious metals. The bullion inventory is subject to market value changes created by the underlying commodity markets. While we believe that we effectively manage the commodity risk associated with our bullion activity, there are several national and international factors which are out of our control that may affect margins, customer demand and transactional volume in our bullion business. These factors include but are not limited to, U.S. Federal Reserve policies, inflation rates, global economic uncertainty, governmental and private mint supply and other factors.

Through a series of transactions beginning in 2010, Elemetal, LLC ("Elemetal"), NTR Metals, LLC ("NTR") and Truscott Capital, LLC ("Truscott"), collectively (the "Related Entities"), became the largest shareholders of our common stock, par value \$0.01 per share ("Common Stock"). NTR transferred all of its Common Stock to Eduro Holdings, LLC ("Eduro") on August 28, 2018. A certain Related Entity had been our principal supplier of bullion products until April 3, 2018. We have secured a non-related party to be our principal supplier.

*Rare Coins, Currency and Collectibles*

We buy and sell most numismatic items, including rare coins, currency, medals, tokens and other collectibles. The majority of our rare coin, currency and collectibles are derived from individual customers selling their collections to us. We then resell them through our retail activities or on the wholesale market through our wholesale contacts.

*Scrap*

Individual and wholesale customers sell their jewelry and other precious-metal items to us at all of our retail locations. After we have purchased these valuables, they are processed at a centralized clearing house where expert jewelers, gemologists and watchmakers sort items into three main resale categories: Retail Appropriate, Wholesale Appropriate and Refiner Appropriate. Items deemed appropriate for resale at one of our retail locations are cleaned, serviced and repaired by our expert jewelers so they are in like-new condition. The vast majority of these items are then individually tagged and sent to one of our retail locations to sell. Items not appropriate for our retail locations are grouped into wholesale lots and liquidated through wholesale contacts, or in-person dealer-to-dealer transactions. Items that are not appropriate for either retail or wholesale purposes are sold to a refiner.

## Relationships

Through a series of transactions beginning in 2010, the Related Entities became the largest shareholders of our Common Stock. Our transactions with the Related Entities are more fully described in Note 13 to our consolidated financial statements, Related-Party Transactions.

On December 9, 2016, DGSE and certain Related Entities closed the transactions contemplated by the Stock Purchase Agreement dated June 20, 2016 (the “Debt Exchange Agreement”) whereby DGSE issued certain Related Entities 14,485,145 shares of Common Stock for \$0.41 per share in exchange for the cancellation and forgiveness of indebtedness and trade payables of \$5,938,909. Also on the same date and pursuant to the Debt Exchange Agreement, DGSE issued a warrant to purchase an additional 1,000,000 shares of Common Stock at an exercise price of \$0.65 per share, exercisable within two years after December 9, 2016 as part of the consideration for the cancellation and forgiveness of trade payables. The warrant expired in December, 2018 without being exercised.

Truscott and NTR each filed reports on Schedule 13D disclosing their respective beneficial ownership of Common Stock. As of April 12, 2018, the Related Entities collectively beneficially own 71.4 % of our Common Stock, with Truscott beneficially owning 47.7% and NTR beneficially owning 23.7%. NTR transferred all of its Common Stock to Eduro on August 29, 2018. John Loftus controls each of NTR and Eduro.

## Sales and Marketing

In Fiscal 2018, our advertising activities continued to rely on radio, print, and digital media. Marketing activities centered on each of the major business categories, emphasizing our broad array of products, expertise, and price advantages compared to our local and regional competition. In Fiscal 2018, we spent approximately \$416,306 on advertising and marketing in our operations, a 52% year-over-year decrease. Our advertising and marketing spending represents costs for traditional and digital media, in-store displays, brochures and informational pamphlets, production fees, and other related items.

In 2019, we anticipate our radio, digital and social media presence to remain an integral part of our marketing strategy. Our website has been redesigned to be viewed on a variety of platforms across a multitude of digital devices. We believe our enhanced web platform also facilitates a personalized shopping experience, including recommending inventory, and delivers a seamless digital experience for product research and social sharing. Additionally, we anticipate that social-media will play an increasingly larger role in our overall advertising mix. We anticipate that digital advertising will allow us to target specific customer groups on a wider scale.

## **Seasonality**

The retail and wholesale jewelry business is generally seasonal. Christmas, Valentine's Day and Mother's Day are the main seasons for jewelry sales. Summer is the slow season.

While our bullion, scrap and rare-coin businesses are not as seasonal, we believe they are directly impacted by several national and international factors outside of our control. These factors may affect margins, customer demand and transactional volume in our bullion and rare-coin business. These factors include but are not limited to, U.S. Federal Reserve policies, inflation rates, global economic uncertainty, governmental and private mint supply and other factors.

## **Competition**

We operate in a highly competitive industry where competition is based on a combination of price, service and product quality. Our jewelry and scrap activities compete with numerous other competitors in the markets in which we operate. These competitors include big-box retailers, national jewelry chains, individual jewelry stores, web-only entities, pawn shops and other businesses that attempt to enter this industry as an add-on to their existing business lines.

The bullion and rare-coin industry in which we compete is dominated by substantially larger enterprises, which retail and wholesale bullion, rare coins and other precious-metal products through traditional store-front locations and via the internet.

We compete in these industries by taking advantage of core competencies in the following areas:

*Pricing* – We believe we offer competitive or industry-leading price points across all of our product lines.

*Selection* – We offer a wide variety of inventory in each of our product lines. Our diverse selection allows us to market to the widest variety of potential clients while delivering items that competitors may have to back-order.

*Brick and Mortar Locations* – We seek retail locations that simultaneously meet our client’s geographical needs while also providing a safe and attractive location to conduct business.

*Web Portals* – In the future, our websites will allow clients who are located both inside and outside of our brick-and-mortar footprint to conduct business with us in an efficient and cost-effective manner.

*Staff* – We employ a staff of experts with many years of experience in their respective fields, including jewelry, diamonds, premium and vintage watches, bullion and numismatic coins. We believe that when coupled with our corporate training programs, management structure and incentives for continuing education, our client-facing sales associates are among the nation’s best.

*Brand* – We have spent millions of dollars over several decades advertising our brands, and have spent countless hours reinforcing our marketing message with our clients on an individual basis. As a result, our current and prospective clients place a significant amount of trust in our brands. Additionally, consumers have additional confidence in our brands due to our public-company status.

*Market Maker* – While many of our competitors limit their participation to either buying or selling in certain markets, we both buy and sell at a retail level across all of our product lines and in all markets, creating a unique service for our retail customers. Our model makes it easy for customers to upgrade to a higher quality watch, diamond or jewelry item, easily moving a precious-metal investment into a different metal, or receive cash for an unwanted item.

## **Employees**

As of December 31, 2018, we employed 52 individuals, 50 of whom were full time employees. None of our employees are represented by a labor union, and we believe that our current relations with employees are good. Our management follows a policy of keeping employees informed of decisions, and encourages and implements employee suggestions whenever practicable.

## **Available Information**

Our primary commercial websites are [www.DGSE.com](http://www.DGSE.com) and [www.CGDEinc.com](http://www.CGDEinc.com). Through the “DGSE Companies” section of these websites, as well as through [www.DGSECompanies.com](http://www.DGSECompanies.com), we make available, free of charge all of our press releases and filings with the Securities and Exchange Commission (“SEC”). Additionally, at [www.DGSECompanies.com](http://www.DGSECompanies.com), are complete copies of our policies (Business Conduct and Ethic; Related Person Transactions; and Whistleblower), committee charters (Audit; Compliance, Governance and Nominating; and Compensation), and information on how to communicate with our Board of Directors (our “Board”).

## **Research & Development**

We do not actively engage in research and development activities. As a result, we did not expend any amounts in Fiscal 2018 and Fiscal 2017 on research and development.

ITEM 1A. RISK FACTORS.

*You should carefully review and consider the risks described below and the forward-looking statements contained in this Form 10-K before evaluating our business or making an investment decision. Our business, financial condition or results of operations could be materially adversely affected by these risks. The trading price of our Common Stock could decline due to any of these risks, and you may lose all or part of your investment. You should also refer to the other information included or incorporated by reference in this report, including our consolidated financial statements and the related notes thereto. These risks and uncertainties could cause actual results and events to differ materially from those anticipated. Additional risks which we do not presently consider material, or of which we are not currently aware, may also have an adverse impact on our business. Please also see the section of this Form 10-K entitled "Special Note Regarding Forward-Looking Statements" on page 1.*

***The voting power in our company is substantially controlled by a small number of stockholders, which may, among other things, delay or frustrate the removal of incumbent directors or a takeover attempt, even if such events may be beneficial to our stockholders.***

Related Entities collectively beneficially own 71.4% of our Common Stock. Truscott Capital is our largest shareholder, owning 12,814,727 shares of our Common Stock, representing 47.7% of our total outstanding shares of Common Stock. NTR transferred all of its Common Stock to Eduro on August 29, 2018, and Eduro now beneficially owns 6,365,460 shares of our Common Stock, representing 23.7% of our total outstanding shares of Common Stock. Consequently, Truscott and Eduro are in a position to significantly influence any matters that are brought to a vote of the shareholders, including, but not limited to, the election of members of our Board and any action requiring the approval of shareholders, including any amendments to our governing documents, mergers or sales of all or substantially all of our assets. This concentration of ownership also may delay, defer or even prevent a change in control of our company and make some transactions more difficult or impossible without the support of Truscott. These transactions might include proxy contests, tender offers, mergers or other purchases of Common Stock that could give stockholders the opportunity to realize a premium over the then-prevailing market price for shares of our Common Stock.

***In Fiscal 2014, we came to an agreed settlement with the SEC, stemming from an investigation of accounting irregularities. As part of this settlement we agreed to a series of corporate governance reforms, which were independently verified in Fiscal 2015. If we do not comply with the corporate governance reforms, we could face additional enforcement actions by the SEC or other governmental or regulatory bodies, as well as additional shareholder lawsuits, all of which could have significant negative financial or operational implications.***

On April 16, 2012, we filed a Current Report on Form 8-K disclosing that our Board had determined the existence of certain accounting irregularities beginning approximately during the second calendar quarter of 2007 and continuing in periods subsequent thereto (the "Accounting Irregularities"). 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. On June 2, 2014, we received notice of the entry of an agreed final judgment by the Honorable Judge Jane Boyle (the "Agreed Final Judgment") in Civil Action No. 3:14-cv-01909-B, entitled Securities and Exchange Commission v. DGSE Companies Inc., et. al., filed on May 27, 2014 in Federal District Court for the Northern District of Texas (the "Civil Action"). We consented to the Agreed Final Judgment prior to the filing of the Civil Action by the SEC. The Agreed Final Judgment was entered in connection with the conclusion of the investigation against DGSE by the SEC regarding the Accounting Irregularities.

In connection with the Agreed Final Judgment and as remedial measures in connection with the Accounting Irregularities, we agreed to undertake certain corporate governance reforms, all of which we believe to be complete at this time (the "Corporate Governance Reforms"). The Corporate Governance Reforms include the appointment of two new independent directors to the Board, establishing the position of a Lead Independent Director on the Board and establishing reasonable term limits for members of the Board, among other reforms. We engaged a consultant satisfactory to the SEC to confirm implementation of the Corporate Governance Reforms. Due to Board member resignations in the latter half of Fiscal 2015, we were unable to complete our confirmation with the consultant by the initial deadline; however, with the addition of new independent directors, we regained compliance with the Corporate Governance Reforms. If we fall out of compliance with the Corporate Governance Reforms, we may be the subject of additional enforcement actions and further lawsuits, which could be debilitating. The costs of such investigations and of defending lawsuits could be significant and could exceed the amount of any available insurance coverage we have, and we may not have sufficient resources in the future to satisfy such costs. These matters may continue for some time, and we have no way of anticipating when or how they may be resolved. As a result of the investigation and settlement, as well as any future investigations or lawsuits, we could face loss of reputation, decline in confidence from investors, fall in the market price for our shares, inability to acquire capital and failure to continue as a going concern.

***In the past, our internal controls over financial reporting and procedures related thereto have been deficient. Although we have taken significant remedial measures, our previous deficiencies could have a material adverse effect on our business and on our investors' confidence in our reported financial information, and there is no guarantee that our internal controls over financial reporting and procedures will not fail in the future.***

Effective internal controls over financial reporting and disclosure controls and procedures are necessary for us to provide reliable financial reports and to detect and prevent fraud. In the past, our internal controls and procedures have failed. The remedial measures taken by us may not be sufficient to regain the confidence of investors or any loss of reputation, which could in turn affect our finances and operations. Our disclosure controls and internal controls over financial reporting may not prevent all errors or all instances of fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our business have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and any design may not succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitation of a cost-effective control system, misstatements due to error or fraud may occur and not be detected. If there is a failure in any of our internal controls and procedures, we could face investigation or enforcement actions by the SEC and other governmental and regulatory bodies, litigation, loss of reputation and investor confidence, inability to acquire capital and other material adverse effects on our finances and business operations.

***The market for precious metals is inherently unpredictable.***

Bullion and scrap products are purchased and sold based on current market pricing for precious metals. Bullion and scrap inventory is subject to market-value changes created by the underlying commodity markets. We periodically enter into futures contracts in order to hedge our exposure against changes in market prices. There are several national and international factors which are out of our control, but which may affect margins, customer demand and transactional volume in our bullion business. These factors include, but are not limited to, the policies of the U.S. Federal Reserve, inflation rates, global economic uncertainty, governmental and private mint supply and other factors. If we misjudge the commodity markets underlying the bullion inventory, our bullion business could suffer adverse consequences. Substantially lower precious metals prices could negatively affect our ability to continue purchasing significant volumes of precious-metal scrap products, which could negatively affect our profitability.

***Adverse economic conditions in the U.S. or in other key markets, and the resulting declines in consumer confidence and spending, could have a material adverse effect on our operating results.***

Our results are dependent on a number of factors impacting consumer confidence and spending, including, but not limited to, the following: general economic and business conditions; wages and employment levels; volatility in the stock market; home values; inflation; consumer-debt levels; availability and cost of consumer credit; economic uncertainty; solvency concerns of major financial institutions; fluctuations in foreign-currency exchange rates; fuel and energy costs and/or shortages; tax issues; and general political conditions, both domestic and abroad.

Adverse economic conditions, including declines in employment levels, disposable income, consumer confidence and economic growth could result in decreased consumer spending that would adversely affect sales of consumer goods, particularly those, such as many of our products, which are viewed as discretionary items. In addition, events such as war, terrorism, natural disasters or outbreaks of disease could further suppress consumer spending on discretionary items. If any of these events should occur, our future sales could decline by driving up commodities prices, particularly gold.

***We face intense competition.***

The industry in which we operate is highly competitive, and we compete with numerous other companies, many of which are larger and have significantly greater financial, distribution, advertising and marketing resources. Our products compete on a number of bases, including price. Significant increases in these competitive influences could adversely affect our operations through a decrease in the number and dollar volume of sales.

For all of our products and services, we compete with a number of comparably sized and smaller firms, as well as a number of larger firms throughout the United States. Many of our competitors have the ability to attract customers as a result of their reputation and through their industry connections. Additionally, other reputable companies may decide to enter our markets to compete with us. These companies may have greater name recognition and have greater financial and marketing resources than we do. If these companies are successful in entering the markets in which we participate, or if customers choose to go to our competition, we may attract fewer buyers and our revenue could decrease.

***Our wholesale and jewelry business is seasonal, with sales traditionally greater during certain holiday seasons, so events and circumstances that adversely affect holiday consumer spending will have a disproportionately adverse effect on our results of operations.***

Our wholesale and jewelry sales are seasonal by nature. Our sales are traditionally greater during significant local holidays that occur in late fall, winter or early spring. The amount of net sales and operating income generated during these seasons depends upon the general level of retail sales at such times, as well as economic conditions and other factors beyond our control. Given the timing of our annual seasonality, inclement weather can at times pose a substantial barrier to consumer retail activity and have a material negative impact on our store traffic. If events or circumstances were to occur that negatively impact consumer spending during such holiday seasons, it could have a material adverse effect on our sales, profitability and results of operations.

***If we misjudge the demand for our products, high inventory levels could adversely affect future operating results and profitability.***

Consumer demand for our products can affect inventory levels. If consumer demand is lower than expected, inventory levels can rise, causing a strain on operating cash flow. If the inventory cannot be sold through our wholesale or retail outlets, additional write-downs or write-offs to future earnings could be necessary. Conversely, if consumer demand is higher than expected, insufficient inventory levels could result in unfulfilled customer orders, loss of revenue and an unfavorable impact on customer relationships. In particular, volatility and uncertainty related to macro-economic factors make it more difficult for us to forecast customer demand in our various markets. Failure to properly judge consumer demand and properly manage inventory could have a material adverse effect on profitability and liquidity.

***Changes in our liquidity and capital requirements and our ability to secure financing and credit could materially adversely affect our financial condition and results of operations.***

We require continued access to capital, and a significant reduction in cash flows from operations or the availability of credit could materially and adversely affect our ability to achieve our planned growth and operating results. Similarly, if actual costs to build new stores significantly exceed planned costs, our ability to build new stores or to operate new stores profitably could be materially restricted. Credit and equity markets remain sensitive to world events and macro-economic developments. Therefore, our cost of borrowing may increase, and it may be more difficult to obtain financing for our operations or to refinance long-term obligations as they become payable. In addition, our borrowing costs can be affected by independent rating agencies' short- and long-term debt ratings which are based largely on our performance as measured by credit metrics including interest coverage and leverage ratios. A decrease in these ratings would likely also increase our cost of borrowing and make it more difficult for us to obtain financing. A significant increase in the costs we incur to finance our operations may have a material adverse impact on our business results and financial condition.

***Interest-rate fluctuations could increase our interest expense.***

Interest rates could rise, which would in turn increase our cost of borrowing or could make it difficult or impossible for us to secure financing.

***A failure in our information systems could prevent us from effectively managing and controlling our business or serving our customers.***

We rely on our information systems to manage and operate our stores and business. This includes our phone system, website, point-of-sale application, accounting package and other systems. Each store is part of an information network that permits us to maintain adequate cash inventory, daily reconcile cash balances, and report revenues and expenses in a timely manner. Any disruption in the availability of our information systems could adversely affect our operation, the ability to serve our customers and our results of operations.

***Our success depends on our ability to attract, retain and motivate qualified directors, management and other skilled employees. Recent changes in key personnel and directors could cause disruptions in our business.***

Our future success and growth depend on the continued services of our directors, key management and employees. The loss of the services of any of these individuals or any other key employee or contractor could materially affect our

business. The resignation of all three of our independent directors in August and September of 2015 caused us to be temporarily out of compliance with the continued listing requirements of the NYSE MKT, which require that 50% of the members of the Board be independent and that the audit committee of the Board be comprised of at least two members, all of whom are independent. As of December 31, 2015, we were also out of compliance with the Corporate Governance Reforms we agreed to make in connection with our Agreed Final Judgment with the SEC, which require us to have at least five Board members, at least three-fifths of whom are independent. The Board elected two new independent directors in 2015 and one new independent director in January 2016. On October 15, 2015, DGSE received a letter from the NYSE MKT confirming that, based on the addition of two new independent directors, DGSE has resolved the continued listing deficiencies described above and is now in compliance with the NYSE MKT's continued listing standards. With the addition of a new independent director in 2016, we regained compliance with the Corporate Governance Reforms set forth in our Agreed Final Judgment with the SEC. In January 2017, our three independent directors resigned, however, three new independent directors were appointed, as a result of which three of the five members of the Board are independent directors. Our future success also depends on our ability to identify, attract and retain additional qualified personnel. Competition for employees in our industry is intense, and we may not be successful in attracting or retaining them. There are a limited number of people with knowledge of, and experience in, our industry. We do not have employment agreements with many of our key employees. We do not maintain life insurance policies on any of our employees. The loss of key personnel, especially without advance notice, or the inability to hire or retain qualified personnel, could have a material adverse effect on sales and operations. We cannot guarantee that we will continue to retain our key management and skilled personnel, or that we will be able to attract, assimilate and retain other highly qualified personnel in the future.

***We have not paid dividends on our Common Stock in the past and do not anticipate paying dividends on our Common Stock in the foreseeable future.***

We have not paid Common Stock dividends since our inception and do not anticipate paying dividends in the foreseeable future. Our current business plan provides for the reinvestment of earnings in an effort to complete development of our technologies and products, with the goal of increasing sales and long-term profitability and value.

***We are subject to new and existing corporate governance and internal control reporting requirements, and our costs related to compliance with, or our failure to comply with, existing and future requirements could adversely affect our business.***

In addition to the Corporate Governance Reforms, we face corporate governance requirements under the Sarbanes-Oxley Act of 2002, and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”), as well as new rules and regulations subsequently adopted by the SEC, the Public Company Accounting Oversight Board and the Exchange. These laws, rules and regulations continue to evolve and may become increasingly stringent in the future. We cannot ensure that we will be able to comply fully with these laws, rules and regulations that address corporate governance, internal control reporting and similar matters. Failure to comply with these laws, rules and regulations could subject us to investigation and enforcement actions, and could materially adversely affect our reputation, financial condition and the value and liquidity of our securities.

***Our websites may be vulnerable to security breaches and similar threats, which could result in our liability for damages and harm to our reputation.***

Despite the implementation of network security measures, our websites are vulnerable to computer viruses, break-ins and similar disruptive problems caused by internet users. These occurrences could result in our liability for damages, and our reputation could suffer. The circumvention of our security measures may result in the misappropriation of customer or other confidential information. Any such security breach could lead to interruptions and delays and the cessation of service to our customers and could result in a decline in revenue and income.

***Fluctuations in the availability and pricing of commodities, particularly gold, which accounts for the majority of our merchandise costs, could adversely impact our earnings and cash availability.***

While jewelry manufacturing is a major driver of demand for gold, management believes that the cost of gold is predominantly driven by investment transactions which have resulted in significant changes in its cost over the past

decade. Our cost of merchandise and potentially our earnings may be adversely impacted by investment market considerations that cause the price of gold to significantly increase or decrease.

An inability to increase retail prices to reflect higher commodity costs would result in lower profitability. Historically, jewelry retailers have been able, over time, to increase prices to reflect changes in commodity costs. However, in general, particularly sharp increases in commodity costs may result in a time lag before increased commodity costs are fully reflected in retail prices. There is no certainty that such price increases will be sustainable, so downward pressure on gross margins and earnings may occur. In addition, any sustained increases in the cost of commodities could result in the need to fund a higher level of inventory or changes in the merchandise available to customers.

A significant portion of our profit is generated from the buying and selling of pre-owned jewelry or other precious-metal-based products. Significant price fluctuations in precious metals, especially downward, can have a severe impact on this part of our business, as people are less likely to sell these products to us if they believe their merchandise is being undervalued, or if they believe the value is uncertain.



***The conflict-mineral diligence process, the results from that process and the related reporting obligations could increase costs, adversely affect our reputation and adversely affect our ability to obtain merchandise.***

In August 2012, the SEC, pursuant to the Dodd-Frank Act, issued final rules which require annual disclosure and reporting on the source and use of certain minerals, including gold, from the Democratic Republic of Congo and adjoining countries. The gold-supply chain is complex, and while our management believes that the rules only cover less than 1% of annual worldwide gold production (based upon current estimates), the final rules require certain jewelry retailers and manufacturers that file with the SEC to exercise reasonable due diligence in determining the country of origin of the statutorily designated minerals that are used in products sold by us. Jewelry retailers or manufacturers who meet certain criteria were required to file certain reports with the SEC beginning in May 2014, disclosing their due-diligence measures related to country of origin, the results of those activities, and related determinations. In conjunction with legal counsel, we have determined that we do not have sufficient control over manufacturing of any of our products to be included in the group of companies required to provide conflict-minerals disclosure and reporting.

If our sourcing processes should change or if there is a determination that our current practices should be covered by the conflict-minerals reporting and disclosure guidelines, we would need to implement significant additional measures to comply with these rules. We cannot be certain of the costs that might be associated with such regulatory compliance. The final rules also cover tungsten, which is contained in a small portion of items that we sell. Other minerals, such as diamonds, could be added to those currently covered by these rules. We may incur reputational risks with customers and other stakeholders if, due to the complexity of the global supply chain, we are unable to sufficiently verify the origin for the relevant metals. Also, if the responses of parts of our supply chain to the verification requests were adverse, it could harm our ability to obtain merchandise and add to compliance costs

***Our customer concentration in one significant customer and vendor could have an adverse impact on our business.***

A significant amount of revenue is sourced from sales to and purchases from one customer, which is a Related Entity. The Related Entity accounted for 11% of our sales and 2% of our purchases in Fiscal 2018, and for 17% of our sales and 11% of our purchases in Fiscal 2017. No other retail or wholesale customers accounted for more than 10% of our revenues as of December 31, 2018 and 2017, respectively. During Fiscal 2017, we obtained a third-party customer and vendor to purchase and sell our excess bullion. This reduced our dependency on the Related Entity and lowered our transactional risk. We will continue to use the Related Entity as a customer for our scrap gold and silver, and we don't see a change or reduction in doing business with them in the future.

***We have received a notice of non-compliance with a continued listing standard from the NYSE MKT for our Common Stock. If we are unable to avoid the delisting of our Common Stock from the NYSE MKT, it could have a substantial negative effect on the liquidity and market price of our Common Stock, our access to capital markets and our liquidity and results of operations.***

On April 12, 2016, we received a notice from the NYSE MKT LLC (the “NYSE MKT”) indicating that we did not meet continued listing standards of the NYSE MKT. We were not in compliance with Section 1003(a)(ii) of the NYSE MKT Company Guide (the “Company Guide”) because we reported stockholders’ equity of \$3.87 million as of December 31, 2015 and had net losses in three out of our four most recent fiscal years. As a result, we became subject to the procedures and requirements of Section 1009 of the Company Guide.

We submitted a plan of compliance to the NYSE MKT on May 12, 2016 addressing how we intend to regain compliance with the continued listing standards of the NYSE MKT. The plan was accepted, DGSE will be subject to the periodic reviews and continued compliance with the plan. If DGSE was not in compliance with the plan as of October 12, 2017 or if DGSE did not make progress consistent with the plan, the NYSE MKT could have initiated delisting procedures.

On April 20, 2017, DGSE was notified by the NYSE MKT that the Company continued to be in non-compliance with certain MKT continued listing standards relating to stockholders' equity. Specifically, the Company was not in compliance with Section 1003(a)(iii) of the NYSE MKT Company Guide (requiring stockholders' equity of \$6.0 million or more if it has reported losses from continuing operations and/or net losses in its five most recent fiscal years) and Section 1003 (a)(ii) (requiring stockholders' equity of \$4.0 million or more if it has reported losses from continuing operations and/or net losses in its four most recent fiscal years). As of December 31, 2016, the Company had stockholders' equity of approximately \$5.9 million and net losses in its five most recent fiscal years ended December 31, 2016.

As previously reported, the Company submitted a plan to regain compliance with MKT listing standards. Each quarter we updated the MKT on the progress of our plan. As of June 30, 2017, we were above the compliance threshold of \$6.0 million, in stockholders' equity, for two consecutive quarters.

On August 24, 2017, the Company was notified by the NYSE MKT that the Company is back in compliance with certain MKT continuing listing standards relating to stockholders' equity. Specifically, the Company is back in compliance with Section 1003(a)(iii) of the NYSE MKT Company Guide (requiring stockholders' equity of \$6.0 million or more if it has reported losses from continuing losses from continuing operations and/or net losses in its five most recent fiscal years) and Section 1003(a)(ii) (requiring stockholders' equity of \$4.0 million or more if it has reported losses from continuing losses from continuing operations and/or net losses in its four most recent fiscal years). As of June 30, 2017, the Company had stockholders' equity of approximately \$6.4 million.

The Company will be subject to MKT Regulation's normal continued listing monitoring. However, in accordance with Section 1009(h) of the MKT Company Guide, if the Company is again determined to be below any of the continued listing standards within 12 months of the date of August 24, 2017, the MKT will examine the relationship between the two incidents of noncompliance and re-evaluate the Company's method of financial recovery from the first incident. NYSE Regulation will then take the appropriate action, which, depending on the circumstances, may include truncating the compliance procedures described in Section 1009 of the MKT Company Guide or immediately initiate delisting procedures. As of December 31, 2018, the Company had stockholders' equity of approximately \$8.4 million and therefore we have continued to show compliance with continued listing standards beyond the 12 month period for re-evaluation.

If our common stock ultimately were to be delisted for any reason, it would negatively impact us by (i) reducing the liquidity and market price of our common stock; and (ii) reducing the number of investors willing to hold or acquire our common stock, which would negatively impact our ability to raise equity financing, which would negatively affect our liquidity and results of operations.

**ITEM 1B. UNRESOLVED STAFF COMMENTS.**

None

## **ITEM 2. PROPERTIES.**

We lease various properties across two markets in which we currently operate. These leases have a wide variety of terms, rents and expiration dates. We are constantly evaluating each of our locations in terms of profitability, effectiveness and fit with long-term strategy. In Fiscal 2015, we closed three stores in the DFW market, as part of an initiative to move toward fewer, but larger retail locations and one store in South Carolina. In Fiscal 2016, we closed our Chicago location and another store in the DFW area. In addition, we opened a new, larger retail space in Euless, Texas, a suburb of Dallas, in January 2016, which offers a larger selection of merchandise, including an onsite jewelry repair department. In Fiscal 2017, we closed one location in the DFW area. The store was in close proximity of our new flagship store on Preston road and we decided to consolidate the smaller location into the much larger store once the lease expired. We also moved our Arlington, TX location to a less expensive location in the neighboring DFW suburb of Grand Prairie. The Arlington minimum lease amount was being raised significantly beyond economic feasibility.

Our principal corporate offices are located in our flagship store located at 13022 Preston Road, Dallas, TX 75240. This location is large enough to facilitate our large retail showroom and house our corporate offices.

12

The following table provides a summary of all materially significant locations out of which we and our subsidiaries operate as of December 31, 2018.

Location	State	Use	Rent/Own	Square Footage	Comments
Grand Prairie	TX	Dallas Gold & Silver	Rent	2,000	
Euless	TX	Dallas Gold & Silver	Rent	4,400	
Southlake	TX	Dallas Gold & Silver	Rent	1,400	
Dallas	TX	Dallas Gold & Silver	Rent	15,120	
Mount Pleasant	SC	Charleston Gold & Diamond	Rent	4,782	Expanded our showroom to include additional 2,104 square feet

**ITEM 3. LEGAL PROCEEDINGS.**

None

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.**

Our Common Stock is traded on the NYSE MKT (the "Exchange"), under the symbol "DGSE". As of February 28, 2019, we had 409 record holders of our Common Stock.

The following table sets forth for the periods indicated, the per share high and low sales prices for our Common Stock as reported on the Exchange. We have not declared any dividends with respect to our Common Stock. We intend to retain all earnings to finance future growth; accordingly, it is not anticipated that cash dividends will be paid to holders of Common Stock in the foreseeable future.

	2018		2017	
	High	Low	High	Low
First	\$1.27	\$0.81	\$1.59	\$1.10
Second	\$0.95	\$0.70	\$1.74	\$1.32
Third	\$0.78	\$0.57	\$1.72	\$1.25
Fourth	\$0.84	\$0.37	\$1.37	\$0.75

**Securities authorized for issuance under equity compensation plans.**

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, 2018, 845,634 have been exercised, 599,000 have expired, and 15,000 remain outstanding. No further issuances can be made pursuant to the 2004 Plan.

On June 27, 2006, our shareholders approved the adoption of the 2006 Equity Incentive Plan (the “2006 Plan”), which reserved 750,000 shares for issuance upon exercise of options to purchase our Common Stock or other stock awards. 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, 50,000 have expired, and none remain outstanding as of December 31, 2018.

In January 2014, we granted 112,000 Restricted Stock Units (“RSUs”) to management and key employees, subject to the 2006 Plan. Under the terms of the RSU Award Agreements from January 2014, 25% of these RSUs vested immediately, with the remaining 75% to vest ratably over the next three years, pending the each recipient’s continued employment by DGSE. On September 24, 2014, the Board awarded the three independent directors a total of 42,600 RSUs as compensation for their Board service. 100% of these RSUs vested on the day prior to DGSE’s 2015 Annual Meeting of Stockholders. On December 10, 2014, the Board awarded DGSE’s former Chief Executive Officer, James D. Clem, 75,000 RSUs as part of his compensation package. 100% of these RSUs vested immediately, and pursuant to this vesting, 75,000 shares of DGSE common stock were issued to Mr. Clem on December 18, 2014. On February 18, 2015, the Company issued 15,000 shares of DGSE’s common stock to management and key employees pursuant to the RSU Award Agreements.

On March 24, 2016, the Board awarded the three independent directors on the Board at that time a total of 122,040 RSUs as compensation for their Board service. One-fourth (or 30,510) of the RSUs vested and were issued on March 31, 2016. The remaining RSUs vested ratably and were exercisable at the end of every quarter (June 30, September 30, and December 31, 2016). Each vested RSU converted into one share of our Common Stock, par value \$0.01, without additional consideration, on the applicable vesting date.

On April 27, 2016, the Board awarded Matthew Peakes, the Company's former Chief Executive Officer and Nabil J. Lopez, the Company's former Chief Financial Officer a total of 75,000 and 50,000 RSUs, respectively, as compensation for their service as executives of the Company. For Mr. Peakes, one-fourth (or 18,750), and for Mr. Lopez, one-fourth (or 12,500) of the RSUs were to vest ratably in equal annual installments over a four year period beginning on April 27, 2017, subject to a continued status as an employee on each such date and other terms and conditions set forth in the RSU Award Agreement, dated April 27, 2016. Each vested RSU is convertible into one share of our Common Stock, par value \$0.01, without additional consideration. Upon termination of service of the employee, other than by death or disability, any RSUs that have not vested will be forfeited and the award of such units shall terminate. As a result of his resignation effective August 15, 2016, 50,000 RSUs awarded to Mr. Lopez were forfeited. In addition to the RSU grant above for Matthew Peakes and Nabil Lopez, the compensation committee granted an additional 75,000 and 50,000, respectively, performance based RSUs to the executives that were to vest ratably over a four year period beginning April 27, 2017 if certain financial performance criteria was achieved. As a result of his resignation effective August 15, 2016, 50,000 RSUs awarded to Mr. Lopez were forfeited.

On April 27, 2017, 18,750 RSUs, one-fourth of the original 75,000 RSU grant for service dated April 27, 2016, were exercised by Matthew Peakes due to his continued employment. However, 18,750 RSUs, one-fourth of the original 75,000 RSU performance grant dated April 27, 2016, was forfeited by Matthew Peakes for not reaching certain financial performance criteria. As a result of his resignation effective June 30, 2017, 112,500 RSUs awarded to Matthew Peakes, 56,250 for his continued employment and 56,250 for performance grant were forfeited.

Subsequent to such grants, the 2006 Plan expired, as a result, no further issuances can be made pursuant to the 2006 Plan. As of December 31, 2018, there are 250 RSUs outstanding.

On December 7, 2016, our shareholders approved the adoption of the 2016 Equity Incentive Plan (the "2016 Plan"), which reserved 1,100,000 shares for issuance pursuant to awards issued thereunder. As of December 31, 2018, no awards had been made under the 2016 Plan.

The following table summarizes options to purchase shares of Common Stock, Restricted Stock Units ("RSUs"), and Warrants outstanding as of December 31, 2018:



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	15,250 (1)	2.17	(2) -
Equity compensation plans not approved by security holders	None 15,250	- 2.17	None -

(1) Includes 250 RSUs that were not vested as of December 31, 2018.

Weighted average exercise price does not include 250 RSUs issued to employees, management and directors of DGSE as incentive compensation for their continued services. Pursuant to the terms of individual Restricted Stock

(2) Unit Award Agreements, such RSUs will vest over time, or performance contingent upon the continued service to DGSE by the recipient. Each vested RSU may be converted into one share of Common Stock without additional consideration (other than such conversion and reduction in the number of RSUs held).

## **ITEM 6. SELECTED FINANCIAL DATA.**

Not required because we are a “Smaller Reporting Company” as that term is defined in Rule 12b-2 promulgated under the Exchange Act.

## **ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

Unless the context indicates otherwise, references to “we,” “us,” “our,” “the Company” and “DGSE” refer to the consolidated business operations of DGSE Companies, Inc. (the parent) and all of its direct and indirect subsidiaries.

## **CAUTIONARY STATEMENT REGARDING RISKS AND UNCERTAINTIES THAT MAY AFFECT FUTURE RESULTS**

### **Forward-Looking Statements**

This Form 10-K, including but not limited to this Item 7, information concerning our business prospects or future financial performance, anticipated revenues, expenses, profitability or other financial items, and our strategies, plans and objectives, together with other statements that are not historical facts, includes “forward-looking statements” within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements generally can be identified by the use of forward-looking terminology, such as “may,” “will,” “would,” “expect,” “intend,” “co-estimate,” “should,” “anticipate” or “believe.” We intend that all forward-looking statements be subject to the safe harbors created by these laws. All statements other than statements of historical information provided herein are forward-looking and may contain information about financial results, economic conditions, trends, and known uncertainties. All forward-looking statements are based on current expectations regarding important risk factors. Many of these risks and uncertainties are beyond our ability to control, and, in many cases, we cannot predict all of the risks and uncertainties that could cause our actual results to differ materially from those expressed in the forward-looking statements. Actual results could differ materially from those expressed in the forward-looking statements, and readers should not regard those statements as a representation by us or any other person that the results expressed in the statements will be achieved. Important risk factors that could cause results or events to differ from current expectations are described under the section of this Form 10-K entitled “Risk Factors” and elsewhere in this Form 10-K. These factors are not intended to be an all-encompassing list of risks and uncertainties that may affect the operations, performance, development and results of our business. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to release publicly the results of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereon, including without limitation, changes in our business strategy or planned capital expenditures,

store growth plans, or to reflect the occurrence of unanticipated events.

### **Overview of Fiscal 2018**

We buy and sell jewelry, diamonds, fine watches, rare coins and currency, precious metal bullion products, scrap gold, silver, platinum and palladium as well as collectibles and other valuables. Our customers include individual consumers, dealers and institutions throughout the United States.

Many aspects of our business are impacted by changes in precious metals pricing which rise and fall based upon global supply and demand dynamics, with the greatest impact relating to gold. The price of gold rebounded during 2017 to end at \$1,303 an ounce, at year end according to the London PM Fix. The increase produced a 14% net gain in gold prices from December 31, 2016 to December 31, 2017. The volatility was still prevalent during the year but the general overall trend was upward during Fiscal 2017. Gold prices again showed volatility during Fiscal 2018. Gold prices started the year at \$1,303 an ounce but dipped down to \$1,177 an ounce on August 17, 2018 to rebound slightly closing at \$1,238 an ounce on December 31, 2018. The overall gold price trending down in Fiscal 2018 produced a net loss of 5% from December 31, 2017 to December 31, 2018.

The gold scrap market, according to the World Gold Council (“WGC”), was a roller-coaster ride during Fiscal 2018. The WGC noted that gold demand is likely to improve in 2019 due to uncertainty in the global financial markets and rising geopolitical unrest. Although buying and selling of pre-owned or “scrap” gold remains low we are confident that the future looks bright when gold prices stabilize.

Although the impact of the precious metals market on DGSE mirrors much of what the WGC reports on a macroeconomic level during prior years, DGSE scrap purchases fell in Fiscal 2018. While the precious metals industry continues to be a challenging environment for DGSE, our focus will be to continue in growing our jewelry, diamond and fine watch business, which we believe will be a growth and profit engine into the future.

As noted above, the scrap gold buying model had been in a substantial reduction in recent years, and as a result we went back to our roots: buying and selling jewelry and timepieces at exceptional prices. Scrap buying is a major source of how we market ourselves. The focus of our marketing and merchandising efforts starting in Fiscal 2017 was growing our jewelry, diamond and watch businesses, and we had not seen the results that were anticipated. At the beginning of Fiscal 2017, we began our marketing campaign to retell our story. We continue to believe that the most successful locations will be those that can sustain our full retail “exchange” model: engaging in both buying and selling of precious metals and related merchandise, while maintaining a robust and diverse inventory across all jewelry categories and providing critical services such as watch and jewelry repair. Those locations that have historically been primarily scrap buying shops simply no longer make economic sense in the current environment. In recent years, DGSE has had many small locations spread across the DFW area in order to provide multiple scrap collection sites. We are now focusing on developing larger, full-service stores, with broad inventory offerings across all categories, while also providing value-added services that help drive retail traffic. During the first quarter of 2017, Fiscal 2016 and 2015, we closed multiple stores in DFW, one store in South Carolina, one store in Chicago, and signed leases on new locations in the western part of the DFW area and our Midtown DFW location. We will continue to focus on evolving our business across all of our markets, in an effort to drive efficiency across our geographical footprint, and maximize profitability.

### **Critical Accounting Policies and Estimates**

Our significant accounting policies are disclosed in Note 1 of our consolidated financial statements. The following discussion addresses our most critical accounting policies, which are those that are both important to the portrayal of our financial condition and results of operations and that require significant judgment or use of complex estimates.

***Inventories.*** All inventory is valued at the lower of cost or net realizable value. We acquire a majority of our inventory from individual customers, including pre-owned jewelry, watches, bullion, rare coins and collectibles. We acquire these items based on our own internal estimate of the fair market value of the items at the time of purchase. We consider factors such as the current spot market price of precious metals and current market demand for the items being purchased. We supplement these purchases from individual customers with inventory purchased from wholesale

vendors. These wholesale purchases can take the form of full asset purchases, or consigned inventory. Consigned inventory is accounted for on our balance sheet with a fully offsetting contra account so that consigned inventory has a net zero balance. The majority of our inventory has some component of its value that is based on the spot market price of precious metals. Because the overall market value for precious metals regularly fluctuates, these fluctuations could have either a positive or negative impact on the value of our inventory and could positively or negatively impact our profitability. We monitor these fluctuations to evaluate any necessary impairment to inventory.

**Impairment of Long-Lived and Amortized Intangible Assets.** We perform impairment evaluations of our long-lived assets, including property, plant and equipment and intangible assets with finite lives whenever business conditions or events indicate that those assets may be impaired. When the estimated future undiscounted cash flows to be generated by the assets are less than the carrying value of the long-lived assets, the assets are written down to fair market value and a charge is recorded to current operations. Based on our evaluations, no impairment was required as of December 31, 2018 or 2017.

**Revenue Recognition.** Revenue is recognized when we transfer promised goods or jewelry and watch repair services to customers in an amount that reflects the consideration to which the company expects to be paid in exchange for those goods and services. The Company's revenue is primarily generated from the sale of finished goods and jewelry and watch repair services through retail, e-commerce or wholesale channels. We generate revenue through the sale of jewelry, rare coins, currency, collectibles, bullion, scrap and the repair of jewelry and watches. The Company's performance obligations underlying such revenue, and the timing of revenue recognition, remains substantially unchanged following the adoption of ASC 606.

ASC 606 provides guidance to identify performance obligations for revenue-generating transactions. The initial guide is to identify the contract with a customer created with the sales invoice or repair ticket. Secondly, to identify the performance obligations in the contract as we promise to deliver the purchased item, or promised repairs in return for payment or future payment as a receivable. The third guide is determining the transaction price of the contract obligation as in the full ticket price, negotiated price or a repair price. The next step is to allocate the transaction price to the performance obligations as we designate a separate price for each item. The final step in the guidance of ASC 606 is to recognize revenue as each performance obligation is satisfied.

Revenues for monetary transactions (i.e., cash and receivables) with dealers and the retail public are recognized when the merchandise is delivered and payment has been made either by immediate payment or through a receivable obligation at one of our over the counter retail stores. We also recognize revenue upon the shipment of goods when retail and wholesale customers have fulfilled their obligation to pay, or promise to pay, through e-commerce or phone sales. We have elected to account for shipping and handling costs as fulfillment costs after the customer obtains control of the goods. Our scrap is sold to a local related entity refiner Elemental. Since Elemental is local we deliver the scrap to the refiner. The metal is assayed, price is determined from the assay and payment is made usually in a day or two. Revenue is recognized from the sale once payment is received.

We also offer a structured layaway plan. When a retail customer utilizes the layaway plan, we collect a minimum payment of 25% of the sales price, establish a payment schedule for the remaining balance and hold the merchandise as collateral as security against the customer's deposit until all amounts due are paid in full. Revenue for layaway sales is recognized when the merchandise is paid in full and delivered to the retail customer. Layaway revenue is also recognized when a customer fails to pay in accordance with the sales contract and the sales item is returned to inventory with the forfeit of deposited funds, typically after 90 days.

In limited circumstances, we exchange merchandise for similar merchandise and/or monetary consideration with both dealers and retail customers, for which we recognize revenue in accordance with Accounting Standards Codification (“ASC”) 845, *Nonmonetary Transactions*. When we exchange merchandise for similar merchandise and there is no monetary component to the exchange, we do not recognize any revenue. Instead, the basis of the merchandise relinquished becomes the basis of the merchandise received, less any indicated impairment of value of the merchandise relinquished. When we exchange merchandise for similar merchandise and there is a monetary component to the exchange, we recognize revenue to the extent of the monetary assets received and determines the cost of sale based on the ratio of monetary assets received to monetary and non-monetary assets received multiplied by the cost of the assets surrendered.

The Company offers the option of third party financing for customers wishing to borrow money for the purchase. The customer applies on-line with the third party and upon going through the credit check will be approved or denied. If accepted, the customer is allowed to purchase according to the limits set by the financing company. We recognize the revenue of the sale upon the promise of the financing company to pay.

We have a return policy (money-back guarantee). The policy covers retail transactions involving jewelry, graded rare coins and currency only. Customers may return jewelry, graded rare coins and currency purchased within 30 days of the receipt of the items for a full refund as long as the items are returned in exactly the same condition as they were delivered. In the case of jewelry, graded rare coins and currency sales on account, customers may cancel the sale within 30 days of making a commitment to purchase the items. The receipt of a deposit and a signed purchase order evidences the commitment. Any customer may return a jewelry item or graded rare coins and currency if they can demonstrate that the item is not authentic, or there was an error in the description of a graded coin or currency piece. Returns are accounted for as a reversal of the original transaction, with the effect of reducing revenues, and cost of sales, and returning the merchandise to inventory. We have established an allowance for estimated returns related to Fiscal 2018 sales, which is based on our review of historical returns experience, and reduces our reported revenues and cost of sales accordingly. As of December 31, 2018 and 2017, our allowance for returns remained the same at \$28,402 and \$28,402, respectively.

**Accounts Receivable.** We record trade receivables when revenue is recognized. When appropriate, we will record an allowance for doubtful accounts, which is primarily determined by an analysis of our trade receivables aging. The allowance is determined based on historical experience of collecting past due amounts, based on the degree of their aging. In addition, specific accounts that are doubtful of collection are included in the allowance. These provisions are reviewed to determine the adequacy of the allowance for doubtful accounts. Trade receivables are charged off when there is certainty as to their being uncollectible. Trade receivables are considered delinquent when payment has not been made within contract terms. As of December 31, 2018 and 2017, our allowance for doubtful accounts was \$0 and \$226,500, respectively.

**Income Taxes.** Income taxes are accounted for under the asset and liability method prescribed by ASC 740, *Income Taxes*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not such assets will be realized.

We account for our position in tax uncertainties in accordance with ASC 740, *Income Taxes*. The guidance establishes standards for accounting for uncertainty in income taxes. The guidance provides several clarifications related to uncertain tax positions. Most notably, a “more likely-than-not” standard for initial recognition of tax positions, a presumption of audit detection and a measurement of recognized tax benefits based on the largest amount that has a greater than 50 percent likelihood of realization. The guidance applies a two-step process to determine the amount of tax benefit to be recognized in the financial statements. First, we must determine whether any amount of the tax benefit may be recognized. Second, we determine how much of the tax benefit should be recognized (this would only apply to tax positions that qualify for recognition.) No additional liabilities have been recognized as a result of the implementation. We have not taken a tax position that, if challenged, would have a material effect on the financial statements or the effective tax rate during Fiscal 2018 and Fiscal 2017, respectively.



## Results of Operations

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

**Revenues.** Revenues from continuing operations decreased by \$7,938,575 or 12.8% in Fiscal 2018, to \$54,056,343 compared to \$61,994,918 in the prior year. Jewelry sales decreased 15% compared to Fiscal 2017. Bullion sales decreased approximately 11% compared to Fiscal 2017. Rare coins decreased 13% compared to Fiscal 2017, and scrap sales decreased 18% compared to Fiscal 2017. The drop in revenue from Fiscal 2017 to Fiscal 2018 is primarily due to the drop in gold prices losing 5% of its value during Fiscal 2018 compared to an increase of 14% in Fiscal 2017.

**Gross Margin.** Gross margin decreased in Fiscal 2018 by \$1,609,101 to \$9,679,723 compared to \$11,288,824 in the prior year. The decrease in gross profit dollars was due to decreased sales. Gross margin as a percentage of revenue was 17.9% compared to 18.2% in the prior year.

The following table represents our historical operating results by category:

	For the Years Ended			December 31, 2017		
	December 31, 2018			December 31, 2017		
	Revenues	Gross Margin	Margin	Revenues	Gross Margin	Margin
Jewelry	\$17,987,872	\$5,158,215	28.7 %	\$21,276,773	\$5,753,954	27.0 %
Bullion/Rare Coin	29,079,487	2,951,368	10.1 %	32,704,138	3,349,217	10.2 %
Scrap	5,140,420	907,190	17.6 %	6,249,626	1,491,121	23.9 %
Other	1,848,564	662,950	35.9 %	1,764,381	694,532	39.4 %
	\$54,056,343	\$9,679,723	17.9 %	\$61,994,918	\$11,288,824	18.2 %

**Selling, General and Administrative.** Selling, general and administrative expenses decreased \$281,653 or 3.1% in Fiscal 2018, to \$8,701,499 compared to \$8,983,152 in the prior year. The overall decrease in SG&A was achieved primarily through continued efforts to reduce expenses at all levels, including store-level operating expenses, and corporate overhead. The decrease was primarily due to a combination of a decrease in advertising expenses of \$448,965 from 2017 to 2018, a decrease in payroll related expenses of \$592,943, which includes salaries, commissions, bonuses and payroll taxes, a decrease in outside services of \$67,301, a decrease in legal fees by \$95,764, offset by an increase in bad debt expense of \$1,075,380 due primarily to the write-off of the Larson Group note receivable and consignment write-offs.

A \$675,000 Secured Promissory Note, dated September 22, 2017, between DGSE and Larson Group LLC, with a remaining balance of \$644,313, became likely uncollectable following the death of its principal, David Larson, and subsequent filing by Larson Group LLC under chapter 7 of the US Bankruptcy Protection laws, on August 6, 2018. The Promissory Note was related to a certain Asset Purchase Agreement, dated September 22, 2017, between DGSE and Larson Group LLC, under which DGSE sold the assets related to its vintage watch business operated under its Fairchild International division. DGSE viewed the likelihood of collecting remaining funds or collateral as remote and wrote off the full balance. Also predominately related to DGSE's vintage watch business before its sale to Larson Group LLC, DGSE wrote off an additional \$552,347 of bad debt against accounts receivables that it viewed as unlikely to be collectable.

**Loss on disposal of Equipment.** Loss on disposal of equipment increased in Fiscal 2018, to \$40,045 compared to \$30,325 in Fiscal 2017. The disposal of equipment is from obsolete equipment transferred from locations that we closed in prior years and had no room to store or use in our current operations.

**Depreciation and Amortization.** Depreciation and amortization decreased by \$33,997 or 11% in Fiscal 2018, to \$286,747 compared to \$320,744 in Fiscal 2017. This decrease was due to assets that are being fully depreciated but still used.

**Other Income.** Other income increased by \$131,816 in Fiscal 2018, to \$216,465 compared to \$84,649 in Fiscal 2017 due primarily to writing off old store credits and enforcing our lay-a-way policy to return unclaimed lay-a-ways back to inventory after ninety days and payments are forfeited.

**Interest Expense.** Interest expense decreased by \$49,703 or 25% in Fiscal 2018, to \$149,540 compared to \$199,243 in Fiscal 2017. The decrease is due to a lower balance in trade payables to Related Entities on which DGSE pays interest.

**Net Income.** We recorded a net income of \$657,685 in Fiscal 2018, compared to a net income of \$1,838,786 in Fiscal 2017, a decrease in net income of \$1,181,101 due primarily to the bad debt write off of \$1,241,919.

## Liquidity and Capital Resources

During Fiscal 2018 and Fiscal 2017, cash provided by operating activities totaled \$375,217 and \$248,275, respectively, an increase of \$126,942. Cash provided by operating activities for the year ended December 31, 2018, was driven largely by a decrease in net trade receivables and net trade receivables, related party of \$115,025, a decrease in prepaid expenses of \$100,297 and net income of \$2,226,396 before non-cash expenses of bad debt expense, depreciation and amortization and loss on disposal of equipment. Offset by cash used in operating activities with an increase in inventories of \$1,167,404, a decrease in accounts payable and accrued expenses of \$163,660 and a decrease in accounts payable, related party of \$813,320

During Fiscal 2018 and Fiscal 2017, cash used in investing activities totaled \$191,132 and \$376,837, respectively, a decrease of \$185,705. The cash used in the amount of \$376,837 for 2017, was the combination of property and equipment purchases primarily related to the continued build out of the Company's new main store at 13022 Preston Road, Dallas, Texas, and the purchase of a new point-of-sale system. The cash used in the amount of \$191,132 for 2018, was the combination of equipment purchases and the continued building of our new point-of-sale system.

During Fiscal 2018 and Fiscal 2017, cash used in financing activities totaled \$2,352 and \$11,312, respectively, a decrease of \$8,960. The decrease of cash used in financing activities during 2018 and 2017 is the result of the pay down and retirement of a capital lease.

We feel that all funding requirements will come from operational cash flow for the next twelve months. From time to time, we have adjusted our inventory levels to meet seasonal demand or in order to meet working capital requirements. Management believes that if additional working capital is required, additional loans can be obtained from individuals or from commercial banks. If necessary, inventory levels may be adjusted in order to meet unforeseen working-capital requirements.

We expect our capital expenditures to total approximately \$150,000 during the next twelve months. These expenditures will be largely driven by the purchase of miscellaneous pieces of equipment and the continued additions to our point-of-sale system. As of December 31, 2018, there were no commitments outstanding for capital expenditures.

In the event of significant growth in retail and/or wholesale jewelry sales, our demand for additional working capital will increase due to a related need to stock additional jewelry inventory and increases in wholesale accounts receivable. Historically, vendors have offered us extended payment terms to finance the need for jewelry inventory growth and our management believes that we will continue to do so in the future.

We have historically renewed, extended or replaced short-term debt as it matures and management believes that we will be able to continue to do so in the near future.

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 anticipated termination—at which point all amounts outstanding thereunder would be due and payable (such amounts, the “Obligations”)—upon the earlier of: (i) August 1, 2014; (ii) the date that is twelve months after we receive 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 carried an interest rate of two percent (2%) per annum for all funds borrowed pursuant to the Loan Agreement. Proceeds received by us 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, and additional proceeds have been used as working capital in the ordinary course of business. We incurred debt issuance costs associated with the Loan Agreement totaling \$56,150. The debt issuance costs were included in other assets in the consolidated balance sheet and were amortized to interest expense on a straight-line basis over two years, and were completely amortized as of Fiscal 2014. On February 25, 2014, we entered into a one-year extension of the Loan Agreement with NTR, extending the termination date to August 1, 2015, and on February 4, 2015, we entered into an additional two-year extension, extending the termination date to August 1, 2017, unless earlier terminated as described above. No debt issuance costs were incurred in relation to these extensions. All other terms of the agreement remain the same. As of December 31, 2018 and 2017, we had outstanding balances of \$0 and \$0, respectively, drawn on the NTR credit facility. The NTR facility is now terminated.

The Texas Comptroller conducted a sales and use tax audit of our operations in Texas with respect to the period December 1, 2009 through June 30, 2013 and subsequently sent us a final assessment in November 2016 asserting that we owed an amount of \$220,007 plus penalties and interest of \$ 66,645 for a total payment due of \$286,652. On February 21, 2017, a Compromise and Settlement Agreement was reached between DGSE and the Comptroller’s Office to pay a lump sum payment of \$261,490 on or before March 23, 2017. The negotiated amount was paid on March 2, 2017.

The Texas Comptroller conducted an additional sales and use tax audit of our Texas operations with respect to the period July 1, 2013 through December 31, 2016. The audit was finalized and a determination was made on April 2, 2018, that we owed a total of \$17,294, which included interest and penalties. An initial reserve of \$70,000 was established at December 31, 2017 to cover any liability. That reserve was reduced to the amount owed of \$17,294 for the accompanying consolidated balance sheet as of March 31, 2018. The balance due of \$17,294 was paid in full on April 4, 2018

The company leases certain of its facilities under operating leases. The minimum rental commitments under non-cancellable operating leases as of December 31, 2018 are as follows:

**Commitment and Contingencies**

	Total	2019	2020	2021	2022	2023	Thereafter
Operating Leases	\$1,866,013	\$548,425	\$478,026	\$394,745	\$150,245	\$126,245	\$168,327

**Off-Balance Sheet Arrangements.**

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to our stockholders.

**ITEM 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK.**

Not required because we are a “Smaller Reporting Company” as that term is defined in Rule 12b-2 promulgated under the Exchange Act.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

For disclosure required by this Item, please see the section of this Form 10-K entitled “Financial Statements.”

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None

22

## **ITEM 9A. CONTROLS AND PROCEDURES.**

### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2018. We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow for timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2018, our principal executive officer and principal financial officer concluded that, as of such date, our disclosure controls and procedures were effective.

### **Management's Annual Report on Internal Control Over Financial Reporting**

Our management has the responsibility for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act, as a process designed by, or under the supervision of, our principal executive and principal financial officer and effected by our board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting only provides reasonable assurance with respect to financial statement presentation and preparation. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework (2013)*. Based on its assessments, management believes that, as of December 31, 2018, our internal control over financial reporting is effective.



Management's report was not subject to attestation by our independent registered public accounting firm pursuant to rules of the SEC that permit the company to provide only management's report in this annual report.

### **Changes in Internal Control Over Financial Reporting**

During the fiscal year ended December 31, 2018, no changes occurred that our management believes have materially affected, or are likely to affect, our internal control over financial reporting.

### **ITEM 9B. OTHER INFORMATION.**

None.

23

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

Information with respect to this Item will be included in our definitive Proxy Statement with respect to our 2019 Annual Meeting, which we intend to file with the SEC no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

### **ITEM 11. EXECUTIVE COMPENSATION.**

Information with respect to this Item will be included in our definitive Proxy Statement with respect to our 2019 Annual Meeting, which we intend to file with the SEC no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

Information with respect to this Item will be included in our definitive Proxy Statement with respect to our 2019 Annual Meeting, which we intend to file with the SEC no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS, AND DIRECTOR INDEPENDENCE.**

Information with respect to this Item will be included in our definitive Proxy Statement with respect to our 2019 Annual Meeting, which we intend to file with the SEC no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

Information with respect to this Item will be included in our definitive Proxy Statement with respect to our 2019 Annual Meeting, which we intend to file with the SEC no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

**PART IV****ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.****Documents filed as part of this report****Index to Financial Statements**

Note: All financial statement schedules have been omitted, since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto. The information required by this Item pursuant to Item 601 of Regulation S-K is set forth on the financial statement index and exhibit index that follows the signature page of this report.

## Index to Exhibits

<b>Exhibit Number</b>	<b>Description</b>	<b>Filed Herein</b>	<b>Incorporated by Reference</b>	<b>Form</b>	<b>Date Filed with SEC</b>	<b>Exhibit Number</b>
3.1	<u>Articles of Incorporation dated September 17, 1965</u>	X		8-A12G	June 23, 1999	3.1
3.2	<u>Certificate of Amendment to Articles of Incorporation, dated October 14, 1981</u>	X		8-A12G	June 23, 1999	3.2
3.3	<u>Certificate of Resolution, dated October 14, 1981</u>	X		8-A12G	June 23, 1999	3.3
3.4	<u>Certificate of Amendment to Articles of Incorporation, dated July 15, 1986</u>	X		8-A12G	June 23, 1999	3.4
3.5	<u>Certificate of Amendment to Articles of Incorporation, dated August 23, 1998</u>	X		8-A12G	June 23, 1999	3.5

Edgar Filing: DGSE COMPANIES INC - Form 10-K

3.6	<u>Certificate of Amendment to Articles of Incorporation, dated June 26, 1992</u>	X	8-A12G	June 23, 1999	3.6
3.7	<u>Certificate of Amendment to Articles of Incorporation, dated June 26, 2001</u>	X	8-K	July 3, 2001	1.0
3.8	<u>Certificate of Amendment to Articles of Incorporation, dated May 22, 2007</u>	X	S-8	May 29, 2007	3.8
3.9	<u>Certificate of Amendment to Articles of Incorporation, dated December 7, 2016</u>	X	10-K	April 14, 2017	3.9
3.10	<u>By-laws, dated March 2, 1992</u>	X	8-A12G	June 23, 1999	3.7

25

Exhibit Number	Description	Filed Herein	Incorporated by Reference	Form	Date Filed with SEC	Exhibit Number
3.11	<u>Amendment to By-laws, dated September 4, 2015</u>	X		8-K	September 11, 2015	3.1
3.12	<u>Amendment to By-laws, dated October 9, 2015</u>	X		8-K	October 9, 2015	3.1
4.1	<u>Specimen Common Stock Certificate</u>	X		S-4	February 26, 2007	4.1
4.2	<u>Warrant to Purchase Shares Of Common Stock of DGSE Companies, Inc. issued to Elemetal, LLC dated December 9, 2016</u>	X		8-K	December 13, 2016	4.1
10.1	<u>Lock-up Agreement, dated September 11, 2012, by and among DGSE Companies, Inc. and certain shareholders</u>	X		8-K	September 16, 2011	10.2
10.2	<u>Form of Option Grant Agreement</u>	X		8-K	September 16, 2011	10.4
10.3	<u>Registration Rights Agreement, dated September 12, 2011, by and between DGSE Companies, Inc. and certain shareholders</u>	X		8-K	September 16, 2011	10.5
10.4	<u>Registration Rights Agreement, dated September 12, 2011, by and between DGSE Companies, Inc. and NTR Metals, LLC</u>	X		8-K	September 16, 2011	10.7
10.5	<u>Option Grant Agreement, dated October 25, 2011, by and between DGSE Companies, Inc. and NTR Metals, LLC</u>	X		8-K	October 28, 2011	10.2
10.6	<u>Loan Agreement, dated July 19, 2012, by and between DGSE Companies, Inc. and NTR Metals, LLC</u>	X		8-K	July 20, 2012	10.1
10.7	<u>Guaranty and Security Agreement, dated July 19, 2012, among DGSE Companies, Inc., its subsidiaries, and NTR Metals, LLC</u>	X		8-K	July 20, 2012	10.2
10.8	<u>Revolving Credit Note granted in favor of NTR Metals, LLC</u>	X		8-K	July 20, 2012	10.3

10.9	<u>Amendment to Loan Agreement and Revolving Credit Note, dated February 25, 2014, by and between the Company and NTR</u>	X	8-K	March 5, 2014	10.1
------	---	---	-----	------------------	------

26

Exhibit Number	Description	Filed Herein	Incorporated by Reference	Form	Date Filed with SEC	Exhibit Number
10.10	<u>Office Space Lease, dated January 21, 2013, by and between 15850 Holdings, LLC and the Company</u>	X		10-K	March 27, 2014	10.21
10.11	<u>Separation &amp; Release of Claims Agreement dated April 17, 2014, by and between the Registrant and James J. Vierling</u>	X		8-K	April 21, 2014	10.1
10.12	<u>Payment Agreement, dated July 11, 2014</u>	X		8-K	July 17, 2014	10.1
10.13	<u>Second Amendment to Loan Agreement and Revolving Credit Note, dated January 26, 2015, by and between the Company and NTR</u>	X		8-K	February 6, 2015	10.1
10.14	<u>Offer Letter by and between DGSE and Matthew M. Peakes, dated September 4, 2015</u>	X		8-K	September 11, 2015	10.1
10.15	<u>Consulting, Separation and Release of Claims Agreement by and between DGSE and James D. Clem, dated September 4, 2015</u>	X		8-K	September 11, 2015	10.2
10.16	<u>Offer Letter by and between DGSE and Nabil J. Lopez, dated October 29, 2015</u>	X		8-K	October 29, 2015	10.1
10.17	<u>Form of Indemnification Agreement between DGSE Companies, Inc. and each Officer and director of DGSE</u>	X		8-K	February 12, 2016	10.1
10.18	<u>Stock Purchase Agreement by and between DGSE Companies, Inc., Elemetal, LLC and NTR Metals, LLC dated June 20, 2016</u>	X		8-K	June 22, 2016	10.1
10.19	<u>Registration Rights Agreement by and among DGSE Companies, Inc., Elemetal, LLC, and NTR Metals, LLC dated as of December 9, 2016</u>	X		8-K	June 22, 2016	10.3
14.1	<u>Business Conduct &amp; Ethics Policy</u>	X		10-K/A	December 19, 2012	14.1
21.1	<u>Subsidiaries of the Registrant</u>	X		10-K		21.1



March 27,  
2014

Exhibit Number	Description	Filed Herein	Incorporated by Reference	Form	Date Filed with SEC	Exhibit Number
23.1	<u>Consent of Whitley Penn LLP</u>	X				
31.1	<u>Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 implementing Section 302 of the Sarbanes-Oxley Act of 2002 by John R. Loftus</u>	X				
31.2	<u>Certification pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934 implementing Section 302 of the Sarbanes-Oxley Act of 2002 by Bret A. Pedersen</u>	X				
32.1	<u>Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by John R. Loftus</u>	X				
32.2	<u>Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Bret A. Pedersen</u>	X				
101.INS	XBRL Instance Document	X				
101.SCH	XBRL Taxonomy Extension Schema Document	X				
101.CAL	XBRL Taxonomy Calculation Linkbase Document	X				
101.DEF	XBRL Taxonomy Definition Linkbase Document	X				
101.LAB	XBRL Taxonomy Label Linkbase Document	X				
101.PRE	XBRL Taxonomy Presentation Linkbase Document	X				

**ITEM 16. FORM 10-K SUMMARY**

None



<b>Financial Statements</b>	<b>Page #</b>
<u>Report of Whitley Penn LLP, Independent Registered Public Accounting Firm</u>	F-1
<u>Consolidated Balance Sheets as of December 31, 2018 and 2017</u>	F-2
<u>Consolidated Statements of Operations for the years ended December 31, 2018 and 2017</u>	F-3
<u>Consolidated Statements of Stockholders' Equity for the years ended December 31, 2018 and 2017</u>	F-4
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2018 and 2017</u>	F-5
<u>Notes to Consolidated Financial Statements</u>	F-6

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and  
Stockholders of DGSE Companies, Inc.

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of DGSE Companies, Inc. (the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of operations, stockholders’ equity, and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as

evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

*/s/ Whitley Penn LLP*

We have served as the Company's auditor since 2012.

Dallas, Texas

April 12, 2019

F-1

**DGSE COMPANIES, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	2018	2017
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 1,453,941	\$ 1,272,208
Trade receivables, net of allowances	94,345	767,761
Trade receivables, net of allowances, related party	-	39,215
Inventories	9,765,094	8,597,690
Prepaid expenses	81,094	181,392
Note receivable, current	-	33,862
Total Current Assets	11,394,474	10,892,128
Property and equipment, net	1,320,863	1,690,872
Note receivable - long term	-	632,860
Intangible assets, net	234,350	-
Other assets	68,411	98,753
Total Assets	\$ 13,018,098	\$ 13,314,613
<b>LIABILITIES</b>		
Current Liabilities		
Current maturities of capital leases	\$-	\$ 2,352
Accounts payable-Trade	838,624	776,800
Accounts payable-Trade, related party	3,088,973	3,902,293
Accrued expenses	579,203	804,687
Customer deposits and other liabilities	97,837	72,705
Total Current Liabilities	4,604,637	5,558,837
Commitments and contingencies		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$0.01 par value; 60,000,000 shares authorized; 26,924,381 shares issued and outstanding	269,244	269,244
Additional paid-in capital	40,172,677	40,172,677
Accumulated deficit	(32,028,460)	(32,686,145)
Total Stockholders' Equity	8,413,461	7,755,776
Total Liabilities and Stockholders' equity	\$ 13,018,098	\$ 13,314,613

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





**DGSE COMPANIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

	2018	2017
Sales	\$54,056,343	\$61,994,918
Cost of goods sold	44,376,620	50,706,094
Gross margin	9,679,723	11,288,824
Expenses:		
Selling, general and administrative expenses	8,701,499	8,983,152
Loss from disposal of equipment	40,045	30,325
Depreciation and amortization	286,747	320,744
	9,028,291	9,334,221
Operating Income	651,432	1,954,603
Other expense (income)		
Other income, net	(216,465 )	(84,649 )
Interest expense	149,540	199,243
	(66,925 )	114,594
Income from operations before income taxes	718,357	1,840,009
Income tax expense	60,672	1,223
Income from operations	657,685	1,838,786
Net Income	\$657,685	\$1,838,786
Basic net income per common share:		
Net income from operations	\$0.02	\$0.07
Diluted net income per common share:		
Net income from operations	\$0.02	\$0.07
Weighted-average number of common shares		
Basic	26,924,381	26,918,371
Diluted	27,024,838	27,437,390

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



**DGSE COMPANIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

	<b>Common Stock</b>		<b>Additional Paid-in Capital</b>	<b>Accumulated Deficit</b>	<b>Total Stockholders' Equity</b>
	<b>Shares</b>	<b>Amount</b>			
Balance at December 31, 2016	26,905,631	\$269,056	\$40,162,177	\$(34,524,931)	\$5,906,302
Stock issued to directors, officers and employees	18,750	188	10,500	-	10,688
Net income	-	-	-	1,838,786	1,838,786
Balance at December 31, 2017	26,924,381	\$269,244	\$40,172,677	\$(32,686,145)	\$7,755,776
Net income	-	-	-	657,685	657,685
Balance at December 31, 2018	26,924,381	\$269,244	\$40,172,677	\$(32,028,460)	\$8,413,461

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

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

	December 31,	
	2018	2017
<b>Cash Flows from Operating Activities</b>		
Net income	\$657,685	\$1,838,786
Adjustments to reconcile income to net cash provided by operating activities:		
Depreciation and amortization	286,747	320,744
Bad debt expense	1,241,919	166,539
Stock based compensation to employees, officers, and directors	-	10,688
Loss on sale of property and equipment	40,045	30,325
Changes in operating assets and liabilities:		
Trade receivables	75,810	(689,205 )
Trade receivables, related party	39,215	1,412
Inventories	(1,167,404)	786,446
Prepaid expenses	100,297	(126,362 )
Note receivable	22,409	(666,722 )
Other assets	30,342	11,852
Accounts payable and accrued expenses	(163,660 )	(731,438 )
Accounts payable, related party	(813,320 )	(205,132 )
Customer deposits and other liabilities	25,132	(499,658 )
Net cash provided by operating activities	375,217	248,275
<b>Cash Flows From Investing Activities:</b>		
Purchase of property and equipment	(125,132 )	(376,837 )
Purchase of intangible assets	(66,000 )	-
Net cash used in investing activities	(191,132 )	(376,837 )
<b>Cash Flows From Financing Activities:</b>		
Payments on capital leases	(2,352 )	(11,312 )
Net cash used in financing activities	(2,352 )	(11,312 )
Net change in cash and cash equivalents	181,733	(139,874 )
Cash and cash equivalents, beginning of period	1,272,208	1,412,082
Cash and cash equivalents, end of period	\$1,453,941	\$1,272,208
<b>Supplemental Disclosures</b>		
Cash paid during the period for:		
Interest	\$149,540	\$199,243
Income taxes	\$56,780	\$45,309
Non cash activities:		

Edgar Filing: DGSE COMPANIES INC - Form 10-K

Transfer of fixed assets to intangible assets	\$204,000	\$-
---	-----------	-----

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

F-5

## **DGSE Companies, Inc. and Subsidiaries**

### **Notes to Consolidated Financial Statements**

#### **Note 1 – Summary of Accounting Policies and Nature of Operations**

A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows:

##### **Principles of Consolidation and Nature of Operations**

DGSE Companies, Inc., a Nevada corporation, and its subsidiaries (the “Company” or “DGSE”), buy and sell jewelry, diamonds, fine watches, rare coins and currency, precious metal bullion products, scrap gold, silver, platinum and palladium as well as collectibles and other valuables. DGSE operates five jewelry stores at both the retail and wholesale level, throughout the United States through its facilities in South Carolina and Texas. The Company also maintains a presence in the retail market through our ecommerce sites, [www.dgse.com](http://www.dgse.com) and [www.cgdeinc.com](http://www.cgdeinc.com).

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and include the accounts of the Company and its subsidiaries. All material intercompany transactions and balances have been eliminated.

The Company operates the business as one operating and one reportable segment under a variety of banners including Charleston Gold & Diamond Exchange and Dallas Gold & Silver Exchange. The Company’s fiscal year ends are December 31, 2018 (“Fiscal 2018”) and December 31, 2017 (“Fiscal 2017”).

##### **Cash and Cash Equivalents**

The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. The carrying amounts reported in the consolidated balance sheets approximate fair value.

## **Inventories**

All inventory is valued at the lower of cost or net realizable value. The Company acquires a majority of its inventory from individual customers, including pre-owned jewelry, watches, bullion, rare coins and collectibles. The Company acquires these items based on its own internal estimate of the fair market value of the items at the time of purchase. The Company considers factors such as the current spot market price of precious metals and current market demand for the items being purchased. The Company supplements these purchases from individual customers with inventory purchased from wholesale vendors. These wholesale purchases of new merchandise can take the form of full asset purchases, or consigned inventory. Consigned inventory is accounted for on the Company's consolidated balance sheet with a fully offsetting contra account so that consigned inventory has a net zero balance. The majority of the Company's inventory has some component of its value that is based on the spot market price of precious metals. Because the overall market value for precious metals regularly fluctuates, these fluctuations could have either a positive or negative impact on the value of the Company's inventory and could positively or negatively impact the profitability of the Company. The Company regularly monitors these fluctuations to evaluate any necessary impairment to its inventory.

F-6

## **Property and Equipment**

Property and equipment are stated at cost and are depreciated over their estimated useful lives, generally from five to ten years, on a straight-line basis. Equipment capitalized under capital leases are amortized over the lesser of the useful life or respective lease terms and the related amortization is included in depreciation and amortization expense. Leasehold improvements are amortized on a straight-line basis over the shorter of their useful life or the term of the lease.

Expenditures for maintenance and repairs are charged against income as incurred; betterments that increase the value or materially extend the life of the related assets are capitalized. When assets are sold or retired, the cost and accumulated depreciation are removed from the accounts and any gain or loss is recorded to current operating income.

## **Impairment of Long-Lived Assets and Amortized Intangible Assets**

The Company performs impairment evaluations of its long-lived assets, including property, equipment, and intangible assets with finite lives whenever business conditions or events indicate that those assets may be impaired. When the estimated future undiscounted cash flows to be generated by the assets are less than the carrying value of the long-lived assets, the assets are written down to fair market value and a charge is recorded to current operations. Based on the Company's evaluations no impairment was required as of December 31, 2018 or 2017.

## **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 carrying amounts reported for the note receivable and capital lease approximate fair value because the underlying instruments have an interest rate that reflects current market rates. None of these instruments are held for trading purposes.

## **Advertising Costs**

Advertising costs are expensed as incurred, and amounted to \$416,306 and \$865,271 for Fiscal 2018 and Fiscal 2017, respectively.



## Accounts Receivable

DGSE's aging accounts receivable were primarily related to a customer, David Larson and their consignment pieces sent out to other watch dealers for sale. David Larson also purchased watches from DGSE upon his departure and DGSE took a note of \$675,000 for payment on September 22, 2017. We wrote off the David Larson note with a final outstanding balance of \$644,313 due to his death and subsequent bankruptcy filing of his remaining company. DGSE viewed the likelihood of collecting remaining funds or collateral as remote and decided to write off the balance. We also wrote off the David Larson consignment balances to other dealers of \$552,347 that we viewed as unlikely to be collectable. Our entire accounts receivable balance, excluding debit/credit card receivable, customer financing receivable and one invoice receivable March 31, 2019, was over 120 days past due. We wrote off all accounts receivable over 120 days past due to the likelihood of collecting the remaining balances as remote.

Given the generally low level of accounts receivable, the Company uses a simplified approach to calculate a general bad debt reserve. An allowance is calculated for each aging "bucket," based on the risk profile of that bucket. For example, based on our historical experience, we have chosen to not place any reserve on amounts that are less than 60 days past due. From there the reserve amount escalates: 10% reserve on amounts over 60 but less than 90 days past due, 25% on amounts over 90 but less than 120 past due, and 75% on amounts over 120 days past due. The account receivables past 120 days past due are reviewed quarterly and if they are deemed uncollectable will be written off against the reserve.

By taking into account that we have written off all trade account receivables, except one, we have determined that a reserve of \$0 is appropriate. Having established this reserve, once an amount is considered to be uncollectable it is to be written off against the reserve. We will revisit the reserve periodically, but no less than annually, with the same analytical approach in order to determine if the reserve needs to be increased or decreased, based on the risk profile of open accounts receivable at that point.

As of December 31, 2018 and 2017, DGSE's allowance for doubtful accounts was \$0 and \$226,520, respectively.

A summary of the Allowance for Doubtful Accounts is presented below:

	December 31,	
	2018	2017
Beginning balance	\$226,520	\$90,800
Bad debt expense (+)	1,241,919	166,539
Receivables written off (-)	(1,468,439)	(30,819)
Ending balance	\$-	\$226,520

## Income Taxes

Income taxes are accounted for under the asset and liability method prescribed by Financial Accounting Standards Board (the "FASB") Accounting Standards Codification ("ASC") 740, *Income Taxes*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not such assets will be realized.

The Company accounts for its position in tax uncertainties in accordance with ASC 740. The guidance establishes standards for accounting for uncertainty in income taxes. The guidance provides several clarifications related to uncertain tax positions. Most notably, a "more likely-than-not" standard for initial recognition of tax positions, a presumption of audit detection and a measurement of recognized tax benefits based on the largest amount that has a greater than 50 percent likelihood of realization. ASC 740 applies a two-step process to determine the amount of tax benefit to be recognized in the financial statements. First, the Company must determine whether any amount of the tax benefit may be recognized. Second, the Company determines how much of the tax benefit should be recognized (this

would only apply to tax positions that qualify for recognition). The Company has not taken a tax position that, if challenged, would have a material effect on the financial statements or the effective tax rate during the years ended December 31, 2018 and 2017.

The Company's federal income tax returns and major state income tax returns for the years subsequent to December 31, 2014 and December 31, 2013, respectively, remain subject to examination. The Company currently believes that its significant filing positions are highly certain and that all of its other significant income tax filing positions and deductions would be sustained upon audit or the final resolution would not have a material effect on the consolidated financial statements. Therefore, the Company has not established any significant reserves for uncertain tax positions. The Company recognizes accrued interest and penalties resulting from audits by tax authorities in the provision for income taxes in the consolidated statements of operations. During Fiscal 2018 and Fiscal 2017, the Company did not incur any federal income tax interest or penalties.

## Revenue Recognition

Revenue is recognized when we transfer promised goods or jewelry and watch repair services to customers in an amount that reflects the consideration to which the company expects to be paid in exchange for those goods and services. The Company's revenue is primarily generated from the sale of finished goods and jewelry and watch repair services through retail, e-commerce or wholesale channels. We generate revenue through the sale of jewelry, rare coins, currency, collectibles, bullion, scrap and the repair of jewelry and watches. The Company's performance obligations underlying such revenue, and the timing of revenue recognition, remains substantially unchanged following the adoption of ASC 606.

ASC 606 provides guidance to identify performance obligations for revenue-generating transactions. The initial guide is to identify the contract with a customer created with the sales invoice or a repair ticket. Secondly, to identify the performance obligations in the contract as we promise to deliver the purchased item, or promised repairs in return for payment or future payment as a receivable. The third guide is determining the transaction price of the contract obligation as in the full ticket price, negotiated price or a repair price. The next step is to allocate the transaction price to the performance obligations as we designate a separate price for each item. The final step in the guidance is to recognize revenue as each performance obligation is satisfied.

The following disaggregation of revenue is listed by sales category:

	For the Years Ended	
	December 31,	
	2018	2017
	Revenues	Revenues
Jewelry	\$17,987,872	\$21,276,773
Bullion/Rare Coin	29,079,487	32,704,138
Scrap	5,140,420	6,249,626
Other	1,848,564	1,764,381
	\$54,056,343	\$61,994,918

The following disaggregation of revenue is listed by state:

	For the Years Ended	
	December 31,	
	2018	2017
	Revenues	Revenues
Texas	\$51,387,661	\$59,713,041

South Carolina	2,668,682	2,281,877
	\$54,056,343	\$61,994,918

Revenues for monetary transactions (i.e., cash and receivables) with dealers and the retail public are recognized when the merchandise is delivered and payment has been made either by immediate payment or through a receivable obligation at one of our over the counter retail stores. We also recognize revenue upon the shipment of goods when retail and wholesale customers have fulfilled their obligation to pay, or promise to pay, through e-commerce or phone sales. We have elected to account for shipping and handling costs as fulfillment costs after the customer obtains control of the goods. Our scrap is sold to a local related entity refiner Elemetal. Since Elemetal is local we deliver the scrap to the refiner. The metal is assayed, price is determined from the assay and payment is made usually in one to two days. Revenue is recognized from the sale once payment is received.

We also offer a structured layaway plan. When a retail customer utilizes the layaway plan, we collect a minimum payment of 25% of the sales price, establish a payment schedule for the remaining balance and hold the merchandise as collateral as security against the customer's deposit until all amounts due are paid in full. Revenue for layaway sales is recognized when the merchandise is paid in full and delivered to the retail customer. Layaway revenue is also recognized when a customer fails to pay in accordance with the sales contract and the sales item is returned to inventory with the forfeit of deposited funds, typically after 90 days.

F-9

In limited circumstances, we exchange merchandise for similar merchandise and/or monetary consideration with both dealers and retail customers, for which we recognize revenue in accordance with Accounting Standards Codification (“ASC”) 845, *Nonmonetary Transactions*. When we exchange merchandise for similar merchandise and there is no monetary component to the exchange, we do not recognize any revenue. Instead, the basis of the merchandise relinquished becomes the basis of the merchandise received, less any indicated impairment of value of the merchandise relinquished. When we exchange merchandise for similar merchandise and there is a monetary component to the exchange, we recognize revenue to the extent of the monetary assets received and determines the cost of sale based on the ratio of monetary assets received to monetary and non-monetary assets received multiplied by the cost of the assets surrendered.

The Company offers the option of third party financing for customers wishing to borrow money for the purchase. The customer applies on-line with the third party and upon going through the credit check will be approved or denied. If accepted, the customer is allowed to purchase according to the limits set by the financing company. We recognize the revenue of the sale upon the promise of the financing company to pay.

We have a return policy (money-back guarantee). The policy covers retail transactions involving jewelry, graded rare coins and currency only. Customers may return jewelry, graded rare coins and currency purchased within 30 days of the receipt of the items for a full refund as long as the items are returned in exactly the same condition as they were delivered. In the case of jewelry, graded rare coins and currency sales on account, customers may cancel the sale within 30 days of making a commitment to purchase the items. The receipt of a deposit and a signed purchase order evidences the commitment. Any customer may return a jewelry item or graded rare coins and currency if they can demonstrate that the item is not authentic, or there was an error in the description of a graded coin or currency piece. Returns are accounted for as a reversal of the original transaction, with the effect of reducing revenues, and cost of sales, and returning the merchandise to inventory. We have established an allowance for estimated returns related to Fiscal 2018 sales, which is based on our review of historical returns experience, and reduces our reported revenues and cost of sales accordingly. As of December 31, 2018 and 2017, our allowance for returns remained the same at \$28,402 and \$28,402, respectively.

### **Shipping and Handling Costs**

Shipping and handling costs was changed in Fiscal 2018 to be included in cost of goods sold compared to Fiscal year 2017 they were included in selling, general and administrative expenses. Shipping and handling costs amounted to \$56,434 and \$67,309, for 2018 and 2017, respectively. We have determined, starting January 1, 2018, that shipping and handling costs should be included in cost of goods sold since inventory is what is shipped to and from store locations or to and from vendors.

### **Taxes Collected From Customers**

The Company's policy is to present taxes collected from customers and remitted to governmental authorities on a net basis. The Company records the amounts collected as a current liability and relieves such liability upon remittance to the taxing authority without impacting revenues or expenses.

### **Earnings Per Share**

Basic earnings per common share, par value \$0.01 per share ("Common Stock") is computed by dividing net earnings available to common stockholders 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 and warrants outstanding determined using the treasury stock method.

F-10

## Stock-Based Compensation

The Company accounts for stock-based compensation by measuring the cost of the employee services received in exchange for an award of equity instruments, including grants of stock options, based on the fair value of the award at the date of grant. In addition, to the extent that the Company receives an excess tax benefit upon exercise of an award, such benefit is reflected as cash flow from financing activities in the consolidated statement of cash flows. Stock-based compensation expense for Fiscal 2018 and Fiscal 2017 amounted to \$0 and \$10,688 respectively.

The following table represents our total compensation cost related to nonvested awards not yet recognized at year end December 31, 2018 and December 31, 2017:

Date of grant	Employee	Price of stock at grant date	Number of shares, granted	Unrecognized	Number of shares, granted	Unrecognized
			December 31, 2018	December 31, 2018	December 31, 2017	December 31, 2017
January 23, 2014	Robert Burnside	\$2.18	250	545	250	\$ 545
January 23, 2014	David Larson	\$2.18	-	-	250	\$ 545
Total cost unrecognized				\$ 545		\$ 1,090

David Larson is no longer employed by the Company and forfeited his nonvested RSUs. Only 250 nonvested stock awards remain unrecognized as of December 31, 2018.

## Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires the use of certain estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosure of contingent liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period including depreciation of property and equipment and amortization or impairment of intangible



assets. The Company evaluates its estimates and assumptions on an ongoing basis and relies on historical experience and various other factors that it believes to be reasonable under the circumstances to determine such estimates. Because uncertainties with respect to estimates and assumptions are inherent in the preparation of financial statements, actual results could differ from these estimates.

### **New Accounting Pronouncements**

In May 2014, 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 guidance requires entities to recognize revenue using the following five-step model: identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue as the entity satisfies each performance obligation. Adoption of this standard could result in retrospective application, either in the form of recasting all prior periods presented or a cumulative adjustment to equity in the period of adoption. The guidance was effective for annual and interim reporting periods beginning after December 15, 2017.

On January 1, 2018 we adopted ASU 2014-09 using the full retrospective method. After the adoption of ASU No. 2014-09, the fair value of customer trade-ins will be considered non-cash consideration when determining the transaction price, and therefore classified as revenue rather than a reduction of cost of goods sold. Also, the Company will record its current sales return reserve within separate refund liability and asset for recovery accounts within other current asset and liabilities. The change in balance classification of sales returns was immaterial to the Company’s consolidated financial statements. The Company completed its review of its material revenue streams and determined that there was no impact to its consolidated financial statements, results of operations or liquidity. When comparing the Company’s current revenue recognition to the new applied revenue recognition under Accounting Standards Codification (“ASC”) 606, there was no change to the amount or timing of revenue recognized. Therefore, no quantitative adjustment was required to be made to the prior periods presented on the unaudited condensed consolidated financial statements after the adoption of ASC 606.

On February 25, 2016, the FASB issued its new lease accounting guidance in Accounting Standards Update No. 2016-02 (“ASU 2016-02”), *Leases* (Topic 842). Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, *Revenue from Contracts with Customers*. Under the new guidance, lessees will be required to recognize a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term for all leases (with the exception of short-term leases) at the commencement date. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is evaluating the financial statement implications of adopting ASU 2016-02.

## Note 2 – Concentration of Credit Risk

The Company maintains cash balances in financial institutions in excess of federally insured limits. Through a series of transactions beginning in 2010, Elemetal, LLC (“Elemetal”), NTR Metals, LLC (“NTR”) and Truscott Capital, LLC (“Truscott”), collectively (the “Related Entities”), became the largest shareholders of our Common Stock. NTR transferred all of its Common Stock to Eurdo Holdings, LLC (“Eduro”) on August 29, 2018. Other than a certain Related Entity, the Company has no retail or wholesale customers that account for more than 10% of its revenues. During Fiscal 2018, 11% of sales and 2% of purchases were transactions with a certain Related Entity, and in Fiscal 2017 these transactions represented 17% of sales and 11% of purchases. A certain Related Entity accounted for 0% and 5% of the Company’s accounts receivable, as of December 31, 2018 and 2017, respectively. The Larson Group, LLP accounted for 0% and 10.3% of the Company’s accounts receivable, as of December 31, 2018 and 2017 respectively. The Dorado Trade Group accounted for 0% and 15.2% of the Company’s accounts receivable, as of December 31, 2018 and 2017 respectively. A certain Related Entity also accounted for \$3,088,973 and \$3,902,293 of the Company’s accounts payable, as of December 31, 2018 and 2017.

## Note 3 – Inventories

Inventories consist of the following:

	December 31,	
	2018	2017
Jewelry	\$7,001,477	\$6,344,948
Scrap Gold	1,205,111	1,512,156

Edgar Filing: DGSE COMPANIES INC - Form 10-K

Bullion	801,717	414,867
Rare Coins and Other	756,789	325,719
	\$9,765,094	\$8,597,690

F-12

**Note 4 – Note Receivable**

Note receivable consists of the following:

	December 31,	
	2018	2017
Note receivable (1)	\$- \$666,722	
Sub-Total	- 666,722	
Less current portion note receivable	- 33,862	
Long-term note receivable	\$- \$632,860	

On September 22, 2017, DGSE entered into a purchase agreement with David Larson and the Larson Group, LLC for preowned fine Rolex watches and aftermarket Rolex accessories, the tradename “Fairchild International”, the website [www.fairchildwatches.com](http://www.fairchildwatches.com) and all telephone numbers and copyrights used solely in the operation of (1) selling preowned Rolex watches. The \$675,000 Secured Promissory Note with a remaining balance of \$644,313, became likely uncollectable following the death of its principal, David Larson, and subsequent filing by Larson Group LLC under chapter 7 of the US Bankruptcy Protection laws, on August 6, 2018. DGSE viewed the likelihood of collecting remaining funds or collateral as remote and wrote off the full balance.

**Note 5 – Property and Equipment**

Property and equipment consists of the following:

	December 31,	
	2018	2017
Building and improvements	\$1,529,649	\$1,676,942
Machinery and equipment	1,039,013	1,518,938
Furniture and fixtures	453,699	563,782
	3,022,361	3,759,662
Less: accumulated depreciation	(1,701,498)	(2,068,790)
Total property and equipment	\$1,320,863	\$1,690,872

Depreciation expense was \$251,097 and \$320,744 for Fiscal 2018 and Fiscal 2017, respectively.



**Note 6 – Intangible assets**

Intangible assets consist of:

	December 31,	
	2018	2017
Domain names	\$41,352	\$41,352
Point of sale system	270,000	-
	311,352	41,352
Less: accumulated amortization	(77,002 )	(41,352)
Total intangibles	\$234,350	\$-

Amortization expense was \$35,650 and \$0 for Fiscal 2018 and Fiscal 2017, respectively.

**Note 7 – Accrued Expenses**

Accrued expenses consist of the following:

	December 31,	
	2018	2017
Professional fees	\$149,000	\$128,615
Advertising	52,590	19,719
Board member fees	7,500	-
Bonuses	-	135,000
Employee benefits	10,383	-
Deferred rent	-	60,810
Federal income tax	-	17,122
Other	-	(1,021 )
Payroll	205,112	202,773
Texas sales tax audit accrued liability	-	70,000
Sales tax	111,739	115,726
State income tax	42,879	55,943
Total accrued accounts payable	\$579,203	\$804,687

Deferred rent was reclassified as other liabilities for Fiscal 2018 of \$61,513 compared to \$60,810 listed in accrued expenses for Fiscal 2017.

F-14

**Note 8 – Long-Term Debt**

Long-term debt consists of the following:

	December 31, 2018	2017
Capital lease (1)	\$- \$2,352	
Sub-Total	- 2,352	
Less Current portion capital lease	- 2,352	
Long-term debt	\$- \$-	

On April 3, 2013, DGSE entered into a capital lease for \$58,563 with Graybar Financial Services for phones at the new corporate headquarters. The non-cancelable lease agreement required an advanced payment of \$2,304 and (1) monthly payments of \$1,077 for 60 months at an interest rate of 4.2% beginning in May 2013. The lease contract ran through May 2018 but with prior years extra payments the lease was paid off early and the equipment was purchased for \$1.

**Note 9 – Basic and Diluted Average Shares**

A reconciliation of basic and diluted average common shares is as follows:

	Year Ended December 31,	
	2018	2017
Basic weighted average shares	26,924,381	26,918,371
Effect of potential dilutive securities	100,457	519,019
Diluted weighted average shares	27,024,838	27,437,390

For the years ended December 31, 2018 and 2017, there were 15,250 and 1,015,500 Common Stock options, warrants, and Restricted Stock Units (RSUs) unexercised respectively. In December, 2018, a warrant for 1,000,000 shares expired unexercised by a certain Related Entity at a price of \$0.65 a share.

**Note 10 – Common Stock**



In January 2014, DGSE's Board of Directors (the "Board") granted 112,000 RSUs to its officers and certain key employees. Each RSU is convertible into one share of Common Stock without additional payment pursuant to the terms of the Restricted Stock Unit Award Agreement, dated January 23, 2014, between the Company and each recipient (the "RSU Award Agreement"). One-fourth, or 28,000, of the RSUs vested and were exercisable as of the date of the grant, and were subsequently issued in January 2014. An additional one-fourth (calculated using the total number of RSUs at the time of grant) of the RSUs issued in January 2014 will vest and be exercisable on each subsequent anniversary of the date of grant until 100 percent of the RSUs have vested, subject to the recipient's continued status as an employee on each such date and other terms and conditions of set forth in the RSU Award Agreement. As of December 31, 2018, 250 RSUs remain unvested.

F-15

## Note 11 – Stock Options and Restricted Stock Units

In January 2014, we granted 112,000 Restricted Stock Units (“RSUs”) to management and key employees, subject to the 2006 Plan. Under the terms of the RSU Award Agreements from January 2014, 25% of these RSUs vested immediately, with the remaining 75% to vest ratably over the next three years, pending the each recipient’s continued employment by DGSE. On September 24, 2014, the Board awarded the three independent directors a total of 42,600 RSUs as compensation for their Board service. 100% of these RSUs vested on the day prior to DGSE’s 2015 Annual Meeting of Stockholders. On December 10, 2014, the Board awarded DGSE’s former Chief Executive Officer, James D. Clem, 75,000 RSUs as part of his compensation package. 100% of these RSUs vested immediately, and pursuant to this vesting, 75,000 shares of Common Stock were issued to Mr. Clem on December 18, 2014. On February 18, 2015, the Company issued 15,000 shares of Common Stock to management and key employees pursuant to the RSU Award Agreements.

On April 27, 2016, the Board awarded Matthew Peakes, the Company’s former Chief Executive Officer and Nabil J. Lopez, the Company’s former Chief Financial Officer a total of 75,000 and 50,000 RSUs, respectively, as compensation for their service as executives of the Company. For Mr. Peakes, one-fourth (or 18,750), and for Mr. Lopez, one-fourth (or 12,500) of the RSUs were to vest ratably in equal annual installments over a four year period beginning on April 27, 2017, subject to a continued status as an employee on each such date and other terms and conditions set forth in the RSU Award Agreement, dated April 27, 2016. Each vested RSU is convertible into one share of our Common Stock, par value \$0.01, without additional consideration. Upon termination of service of the employee, other than by death or disability, any RSUs that have not vested will be forfeited and the award of such units shall terminate. As a result of his resignation effective August 15, 2016, 50,000 RSUs awarded to Mr. Lopez was forfeited. In addition to the RSU grant above for Matthew Peakes and Nabil Lopez, the compensation committee granted an additional 75,000 and 50,000, respectively, performance based RSUs to the executives that were to vest ratably over a four year period beginning April 27, 2017 if certain financial performance criteria are achieved. As a result of his resignation effective August 15, 2016, 50,000 RSUs awarded to Mr. Lopez were forfeited.

On April 27, 2017, 18,750 RSUs, one-fourth of the original 75,000 RSU grant for service dated April 27, 2016, were exercised by Matthew Peakes due to his continued employment. However, 18,750 RSUs, one-fourth of the original 75,000 RSU performance grant dated April 27, 2016, were forfeited by Matthew Peakes for not reaching certain financial performance criteria. As a result of his resignation effective June 30, 2017, 112,500 RSUs awarded to Matthew Peakes, 56,250 for his continued employment and 56,250 for the performance grant were forfeited.

Subsequent to such grants, the 2006 Plan expired, as a result, no further issuances can be made pursuant to the 2006 Plan. On December 7, 2016, our shareholders approved the adoption of the 2016 Equity Incentive Plan (the “2016 Plan”), which reserved 1,100,000 shares for issuance pursuant to awards issued thereunder. As of December 31, 2018, no awards had been made under the 2016 Plan.



The following table summarizes the activity in common shares subject to options and warrants:

	Year Ended December 31,			
	2018	2017	2018	2017
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of year	1,015,000	\$ 0.67	1,015,000	\$ 0.67
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	(1,000,000)	0.65	-	-
Outstanding at end of year	15,000	\$ 2.17	1,015,000	\$ 0.67
Options exercisable at end of year	15,000	\$ 2.17	1,015,000	\$ 0.67

Information about stock options outstanding at December 31, 2018 is summarized as follows:

Options Outstanding and Exercisable				
Exercise price	Number outstanding	Weighted average remaining contractual life (Years)	Weighted average exercise price	Aggregate Intrinsic Value
\$ 2.13	10,000	NA	(1) \$ 2.13	\$-
\$ 2.25	5,000	NA	(1) 2.25	-
	15,000			\$-

(1) Options currently issued pursuant to the Company's 2004 Employee Stock Option Plans have no expiration date.

The aggregate intrinsic values in the above table were based on the closing price of our Common Stock of \$0.46 as of December 31, 2018.

A summary of the status of our non-vested RSU grants issued under our 2006 Plan is presented below:

	Year Ended December 31,			
	2018		2017	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Nonvested at beginning of year	500	\$ 0.56	152,000	\$ 0.56
Granted	-	-	-	-
Vested	-	-	(18,750 )	0.56
Forfeited	(250)	0.56	(132,750)	0.56
Outstanding at end of year	250	\$ 0.56	500	\$ 0.56

As a result of the expiration of the 2006 Plan, as of December 31, 2018, no further shares could be issued under the 2006 Plan. A total of 1,100,000 shares remain available for future grants pursuant to the 2016 Plan.

During 2018 and 2017, the Company recognized \$0 and \$10,688, respectively, of stock-based compensation expense attributable to employees and directors which was recorded in selling, general, and administrative expenses.

#### Note 12– Sales and Use Tax

The Texas Comptroller conducted a sales and use tax audit of our operations in Texas with respect to the period December 1, 2009 through June 30, 2013 and subsequently sent us a preliminary assessment in September 2015 asserting that we owe \$220,007 plus penalties and interest of \$66,645 for a total payment due of \$286,652. On February 21, 2017, a Compromise and Settlement Agreement was reached between DGSE and the Comptroller’s Office to pay a lump sum payment of \$261,490 on or before March 23, 2017. Payment was made in full on March 2, 2017.

The Texas Comptroller conducted an additional sales and use tax audit of our Texas operations with respect to the period July 1, 2013 through December 31, 2016. The audit was finalized and a determination was made on April 2, 2018, that we owed a total of \$17,294, which includes interest and penalties. An initial reserve of \$70,000 was established at December 31, 2017 to cover any liability. That reserve was reduced to the amount owed of \$17,294 for the accompanying consolidated balance sheet as of March 31, 2018. The balance due of \$17,294 was paid in full on April 4, 2018.

F-18

**Note 13 – Income Taxes**

The income tax provision reconciled to the tax computed at the statutory from continuing operations Federal rate follows:

	2018	2017
Tax Expense at Statutory Rate	\$ 150,855	\$ 625,603
Valuation Allowance	(152,043)	(570,139)
Non-Deductible Expenses and Other	1,189	(62,225 )
Tax Reform Revaluation, Net of Valuation Allowance	21,915	(39,037 )
State Taxes, Net of Federal Benefit	38,756	47,021
Income tax expense	\$60,672	\$ 1,223
Current	\$60,672	\$ 1,223
Deferred	-	-
Total	\$60,672	\$ 1,223

Deferred income taxes are comprised of the following:

	2018	2017
Deferred tax assets (liabilities):		
Inventories	\$27,524	\$27,122
Stock options and other	57,019	58,050
Alternative Minimum Tax credit carryforward	-	1,703
Contingencies and accruals	18,882	81,907
Property and equipment	(97,897 )	(228,460 )
Net operating loss carryforward	7,251,479	7,376,283
Total deferred tax assets, net	7,257,007	7,316,605
Valuation allowance	\$(7,257,007)	\$(7,316,605)

As of December 31, 2018, the Company had \$2,729,636 of net operating loss carry-forwards, related to the Superior Galleries acquisition which may be available to reduce taxable income in future years, subject to the applicable Internal Revenue Code Section 382 limitations. As of December 31, 2018, the Company had approximately \$36,789,124 of net operating loss carry-forwards related to Superior Galleries' post acquisition operating losses and other operating losses incurred by the Company's other operations. These carry-forwards will expire, starting in 2026 if not utilized. As of December 31, 2018, the Company determined, based on consideration of all available evidence, including but not limited to historical, current and future anticipated financial results as well as applicable IRS

limitation and expiration dates related to the Company's net operating losses a full valuation allowance should be recorded for its net deferred tax assets.

The Tax Cuts and Jobs Act (the "Tax Act"), which was enacted December 22, 2017, reduced the corporate income tax rate effective January 1, 2018 from 35% to 21%. Among the other significant tax law changes that potentially affect the Company are the limitations on the deduction for interest incurred in 2018 or later of up to 70% of its taxable income for the carryforward year and the limitation of the utilization of post 2017 net operating loss carryforwards. At December 31, 2018, the Company has not completed its accounting for the tax effects of enactment of the Tax Act. The Company does not anticipate material changes to its income tax provision as a result of the passage of the Tax Act until pre tax law change net operating losses are fully utilized or expire in 2026. The Company has remeasured certain deferred federal tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. The deferred tax assets of the Company were reduced by \$4,529,327 as a result of this remeasurement. This change was fully offset by the corresponding change in the valuation allowance. The Company has recorded \$21,393 on noncurrent receivable related to alternative minimum tax credits which are refundable under the Act.



**Note 14 – Operating Leases**

The Company leases certain of its facilities under operating leases. The minimum rental commitments under non-cancellable operating leases as of December 31, 2018 are as follows:

	Total	2019	2020	2021	2022	2023	Thereafter
Operating Leases	\$1,866,013	\$548,425	\$478,026	\$394,745	\$150,245	\$126,245	\$168,327

Rent expense for Fiscal 2018 and Fiscal 2017 was \$509,534 and \$507,238, respectively.

**Note 15 – 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 (“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 its stockholders. Among other factors, DGSE’s Board 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. DGSE’s Board reviews all Related Party transactions at least annually to determine if it is in DGSE’s best interests and the best interests of DGSE’s stockholders to continue, modify, or terminate any of the Related Party transactions. DGSE’s Related Person Transaction Policy is available for review in its entirety under the “Investors” menu of the Company’s corporate relations website at [www.DGSECompanies.com](http://www.DGSECompanies.com).

Through a series of transactions beginning in 2010, Elemetal, NTR and Truscott (“Related Entities”) became the largest shareholders of our Common Stock. NTR transferred all of its Common Stock to Eduro Holdings, LLC (“Eduro”) on August 29, 2018. A certain Related Entity has been DGSE’s primary refiner and bullion trading partner. In Fiscal 2018, 11% of sales and 2% of purchases were transactions with a certain Related Entity, and in the same period of Fiscal 2017, these transactions represented 17% of DGSE’s sales and 11% of DGSE’s purchases. On December 9, 2016, DGSE and a certain Related Entity closed the transactions contemplated by the Debt Exchange Agreement whereby DGSE issued a certain Related Entity 8,536,585 shares of its common stock and a warrant to purchase an additional 1,000,000 shares to be exercised within two years after December 9, 2016, in exchange for the cancellation and forgiveness of \$3,500,000 of trade payables owed to a certain Related Entity as a result of bullion-related transactions. The warrant to purchase an additional 1,000,000 shares expired in December, 2018 and was not exercised. As of December 31, 2018, the Company was obligated to pay \$3,088,973 to the certain Related Entity as a trade payable, and had a \$0 receivable from the certain Related Entity. As of December 31, 2017, the Company was

obligated to pay \$3,902,293 to the certain Related Entity as a trade payable, and had a \$39,215 receivable from the certain Related Entity. For the year ended December 31, 2018 and 2017, the Company paid the Related Entities \$149,540 and \$199,243, respectively, in interest on the Company's outstanding payable.

On July 19, 2012, the Company entered into the Loan Agreement with a certain Related Entity, pursuant to which the Related Entity agreed to provide the Company with a guidance line of revolving credit in an amount up to \$7,500,000. The Loan Agreement anticipated termination—at which point all amounts outstanding thereunder would be due and payable—upon the earlier of: (i) August 1, 2014; (ii) the date that is twelve months after DGSE receives notice from the certain Related Entity 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, DGSE granted a security interest in the respective personal property of each of its subsidiaries. The loan carried an interest rate of two percent (2%) 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 were used as working capital in the ordinary course of business. On February 25, 2014, we entered into a one-year extension of the Loan Agreement with the certain Related Entity, extending the termination date to August 1, 2015, and on February 4, 2015, we entered into an additional two-year extension, extending the termination date to August 1, 2017. On December 9, 2016, DGSE and the certain Related Entity closed the transactions contemplated by the Debt Exchange Agreement whereby DGSE issued the certain Related Entity 5,948,560 shares of common stock in exchange for the cancellation and forgiveness of the loan principal and accrued interest totaling \$2,438,909.

#### **Note 16 – Defined Contribution Plan**

The Company sponsors a defined contribution 401(k) plan that is subject to the provisions of the Employee Retirement Income Security Act of 1974. The plan covers substantially all employees who have completed one month of service. Participants can contribute up to 15 percent of their annual salary subject to Internal Revenue Service limitations. The Company matched 10% of the employee's contribution up to 6% of the employee's salary for the Fiscal 2018 plan and no contributions were matched or contributed by DGSE Companies, Inc. for the Fiscal 2017 plan.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DGSE COMPANIES, INC.

By: /s/ *JOHN R. LOFTUS*                      Dated: April 12, 2019  
John R. Loftus  
Chairman of the Board,  
Chief Executive Officer,  
(Principal Executive Officer)  
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ *JOHN R. LOFTUS*                      Dated: April 12, 2019  
John R. Loftus  
Chairman of the Board,  
Chief Executive Officer,  
(Principal Executive Officer)  
President

By: /s/ *BRET A. PEDERSEN*                      Dated: April 12, 2019  
Bret A. Pedersen  
Chief Financial Officer  
(Principal Accounting Officer)

By: /s/ *JOEL S. FRIEDMAN*                      Dated: April 12, 2019  
Joel S. Friedman  
Director

By: /s/ *ALEXANDRA C. GRIFFIN*                      Dated: April 12, 2019  
Alexandra C. Griffin  
Director

By: /s/ *JIM R. RUTH*                              Dated: April 12, 2019  
Jim R. Ruth  
Director

By: /s/ *ALLISON M. DESTEFANO* Dated: April 12, 2019

Allison M. DeStefano

Director

