

Edgar Filing: DGSE COMPANIES INC - Form 10-Q

DGSE COMPANIES INC  
Form 10-Q  
August 10, 2006

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

(Mark One)

(X) Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2006

( ) Transition Report under Section 13 or 15(d) of the Securities Exchange Act of 1934

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

Commission File Number 1-11048

DGSE Companies, Inc.  
\_\_\_\_\_  
(Name of issuer)

Nevada  
\_\_\_\_\_  
(State or other jurisdiction of incorporation or organization)

88-0097334  
\_\_\_\_\_  
(I.R.S. Employer Identification Number)

2817 Forest Lane, Dallas, Texas  
\_\_\_\_\_  
(Address of principal executive offices)

75234  
\_\_\_\_\_  
(Zip Code)

(Issuer's telephone number, including area code) (972) 484-3662  
\_\_\_\_\_

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No  
--- ---

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 10, 2006
-----	-----
Common Stock, \$.01 per value	4,913,290

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets

	(Unaudited)	
ASSETS	June 30, 2006	December 31, 2005
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents	\$ 198,467	\$ 1,042,834
Trade receivables	963,023	688,810
Inventories	8,018,214	7,570,120
Prepaid expenses	236,516	215,560
	-----	-----
Total current assets	9,416,220	9,517,324
MARKETABLE SECURITIES - AVAILABLE FOR SALE	74,929	65,444
PROPERTY AND EQUIPMENT - AT COST, NET	1,048,021	1,121,662
DEFERRED INCOME TAXES	--	779
GOODWILL	837,117	837,117
OTHER ASSETS	438,621	287,790
	-----	-----
	\$ 11,814,908	\$ 11,830,116
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable	\$ 194,183	\$ 594,183
Current maturities of long-term debt	259,273	259,152
Accounts payable - trade	482,470	789,724
Accrued expenses	251,416	580,823
Customer deposits	248,802	206,320
Federal income taxes payable	154,898	13,920
	-----	-----
Total current liabilities	1,591,042	2,444,122
Long-term debt, less current maturities	3,724,801	3,314,886
Deferred income taxes	2,446	13,920
	-----	-----
Total liabilities	5,318,289	5,759,008
SHAREHOLDERS' EQUITY		
Common stock, \$.01 par value; authorized 10,000,000 shares; issued and outstanding 4,913,290 shares at The end of each period	49,133	49,133
Additional paid-in capital	5,708,760	5,708,760

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Accumulated other comprehensive loss	(120,992)	(127,252)
Retained earnings	859,718	440,467
	-----	-----
Total shareholders' equity	6,496,619	6,071,108
	\$ 11,814,908	\$ 11,830,116
	=====	=====

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

DGSE Companies, Inc. and Subsidiaries  
CONSOLIDATED STATEMENTS OF OPERATIONS  
Three months ended  
(Unaudited)

	June 30, 2006	June 30, 2005
	-----	-----
Revenue		
Sales	\$ 12,444,265	\$ 6,708,363
Pawn services charges	101,788	92,047
	-----	-----
	12,546,053	6,800,410
Costs and expenses		
Cost of goods sold	10,760,456	5,453,742
Selling, general and administrative expenses	1,261,648	1,105,367
Depreciation and amortization	39,715	49,068
	-----	-----
	12,061,819	6,608,177
	-----	-----
Operating income	484,234	192,233
	-----	-----
Other expense		
Interest expense	(73,975)	(72,039)
	-----	-----
Total other expense	(73,972)	(72,039)
Income before income taxes	410,259	120,194
Income tax expense	139,488	40,866
	-----	-----
Net income	\$ 270,771	\$ 79,328
	=====	=====
Earnings per common share		
Basic and diluted	\$ .05	\$ .02
Weighted average number of common shares:		
Basic	4,913,290	4,913,290
Diluted	5,045,242	5,069,489

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

DGSE Companies, Inc. and Subsidiaries  
CONSOLIDATED STATEMENTS OF OPERATIONS  
Six months ended  
(Unaudited)

	June 30, 2006	June 30, 2005
	-----	-----
Revenue		
Sales	\$ 22,072,918	\$ 13,346,277
Pawn services charges	194,132	171,945
	-----	-----
	22,267,050	13,518,222
Costs and expenses		
Cost of goods sold	18,928,536	10,770,615
Selling, general and administrative expenses	2,473,689	2,164,251
Depreciation and amortization	79,015	91,871
	-----	-----
	21,481,240	13,026,737
Operating income	785,810	491,485
	-----	-----
Other expense		
Interest expense	(150,581)	(143,163)
	-----	-----
Total other expense	(150,581)	(143,163)
Income before income taxes	635,229	348,322
Income tax expense	215,978	118,429
	-----	-----
Net income	\$ 419,251	\$ 229,893
	=====	=====
Earnings per common share		
Basic	\$ .09	\$ .05
	=====	=====
Diluted	\$ .08	\$ .05
	=====	=====
Weighted average number of common shares:		
Basic	4,913,290	4,913,290
Diluted	4,955,530	5,069,489

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

DGSE COMPANIES, Inc. and Subsidiaries

### CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended June 30,	
	2006	2005
Cash Flows From Operations		
Reconciliation of income to net cash used in operating activities		
Net income	\$ 419,251	\$ 229,893
Depreciation and amortization	79,015	91,871
(Increase) decrease in operating assets and liabilities		
Trade receivables	(225,008)	89,714
Inventories	(448,094)	(364,922)
Prepaid expenses and other current assets	(20,956)	(131,041)
Accounts payable and accrued expenses	(636,661)	(755,347)
Change in customer deposits	42,482	63,554
Federal income taxes payable	140,978	43,428
Other assets	(150,831)	(9,171)
	(799,824)	(742,021)
Total net cash used in operating activities		
Cash flows from investing activities		
Pawn loans made	(266,210)	(329,428)
Pawn loans repaid	218,069	223,053
Recovery of pawn loan principal through		
Sale of forfeited collateral	45,543	111,522
Pay day loans made	(126,770)	(51,580)
Pay day loans repaid	80,163	21,138
Purchase of property and equipment	(5,374)	(168,287)
	(54,579)	(193,582)
Net cash used in investing activities		
Cash flows from financing activities		
Proceeds from notes issued	500,000	3,181,365
Payments on notes payable	(489,964)	(2,408,193)
	10,036	773,172
Net cash provided by financing activities		
Net decrease in cash and cash equivalents	(844,367)	(162,431)
Cash and cash equivalents at beginning of year	1,042,834	314,897
Cash and cash equivalents at end of period	\$ 198,467	\$ 152,466

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**Supplemental disclosures:**

Interest paid for the six months ended June 30, 2006 and 2005 was \$ 148,595 and \$ 143,163, respectively. Income taxes paid for the six months ended June 30, 2006 and 2005 was \$75,000 and \$75,000, respectively. Pawn loans forfeited and transferred to inventory amounted to \$ 45,543 and \$ 184,381, respectively, for the six months ended June 30, 2006 and 2005.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(1) Basis of Presentation:**

The accompanying unaudited condensed consolidated financial statements of DGSE Companies, Inc. and Subsidiaries include the financial statements of DGSE Companies, Inc. and its wholly-owned subsidiaries, DGSE Corporation, National Jewelry Exchange, Inc., Charleston Gold and Diamond Exchange, Inc. and American Pay Day Centers, Inc. In the opinion of management, all adjustments consisting of normal recurring accruals considered necessary for a fair presentation have been included.

The Company's operating results for the periods ended June 30, 2006, are not necessarily indicative of the results that may be expected for the year ended December 31, 2006. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2005. Certain reclassifications were made to the prior year's consolidated financial statements to conform to the current year presentation.

Pawn loans receivable in the amount of \$ 113,381 and \$ 132,811 as of June 30, 2006 and 2005, respectively, are included in the Consolidated Balance Sheets caption trade receivables. The related pawn service charges receivable in the amount of \$32,339 and \$ 74,299 as of June 30, 2006 and 2005, respectively, are also included in the Consolidated Balance Sheets caption trade receivables. Pay day loans receivable in the amount of \$ 61,887 as of June 30, 2006 and \$ 28,142 as of June 30, 2005, respectively, are also included in the Consolidated Balance Sheets caption trade receivables.

**(2) - Earnings per share**

A reconciliation of the income and shares of the basic earnings per common share and diluted earnings per common share for the periods ended June 30, 2006, and 2005 is as follows:

	2006 Six months			2005 Six months
	Income	Shares	Per-Share Amount	Income
Basic earnings per common share				
Income from operations allocable to common shareholders	\$ 419,251	4,913,290	\$ .09	\$ 229,893

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Effect of dilutive securities				
Stock options	--	42,240	--	--
	-----	-----	-----	-----
Diluted earnings per common share				
Income from operations available				
to common shareholders plus				
assumed conversions	\$ 419,251	4,955,530	\$ .08	\$ 229,893
	=====	=====	=====	=====
		2006		
		Three months		Thru
		-----	-----	-----
			Per-Share	
		Income	Amount	Income
		-----	-----	-----
Basic earnings per common share				
Income from operations allocable				
to common shareholders	\$ 270,771	4,913,290	\$ .05	\$ 79,328
Effect of dilutive securities				
Stock options	--	131,952	--	--
	-----	-----	-----	-----
Diluted earnings per common share				
Income from operations available				
to common shareholders plus				
assumed conversions	\$ 270,771	5,045,242	\$ .05	\$ 79,328
	=====	=====	=====	=====

(3) - Business segment information

Management identifies reportable segments by product or service offered. Each segment is managed separately. Corporate and other includes certain general and administrative expenses not allocated to segments and pawn operations. The Company's operations by segment for the six months ended June 30 were as follows:

(Amounts in thousands)

	Retail Jewelry	Wholesale Jewelry	Bullion	Rare Coins	Discontinued Operations	Corpo and O
	-----	-----	-----	-----	-----	-----
Revenues						
2006	\$ 7,560	\$ 2,303	\$ 9,591	\$ 2,518	--	\$
2005	6,428	1,947	3,572	1,163	--	
Net income (loss)						
2006	153	57	150	166	--	
2005	160	98	15	88	--	
Identifiable Assets						

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2006	8,633	1,944	172	372	--
2005	7,781	1,735	165	174	5
Capital Expenditures					
2006	5	--	--	--	--
2005	151	--	--	--	--
Depreciation and Amortization					
2006	48	--	--	--	--
2005	56	11	--	--	--

The Company's operations by segment for the three months ended June 30 were as follows:

(Amounts in thousands)

	Retail Jewelry	Wholesale Jewelry	Bullion	Rare Coins	Discontinued Operations	Corpo and O
	-----	-----	-----	-----	-----	-----
Consolidated Revenues						
2006	\$ 4,332	\$ 1,182	\$ 5,711	\$ 1,184	--	\$
2005	3,408	1,007	1,579	614	--	
Net income (loss)						
2006	113	33	88	98	--	
2005	74	43	4	41	--	
Identifiable Assets						
2006	8,633	1,944	172	372	--	
2005	7,781	1,735	165	174	5	
Capital Expenditures						
2006	2	--	--	--	--	
2005	144	--	--	--	--	
Depreciation and Amortization						
2006	24	--	--	--	--	
2005	28	6	--	--	--	

(4) Other Comprehensive income:

Other comprehensive income is as follows:

Before Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
-----	-----	-----



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Other comprehensive loss at December 31, 2005	\$ (162,071)	\$ 34,819	\$ (127,252)
Unrealized gains during the period ended March 31, 2006	4,385	(1,491)	2,894
	-----	-----	-----
Other comprehensive loss at March 31, 2006	(157,686)	33,328	(124,358)
Unrealized gains during the period ended June 30, 2006	5,100	(1,734)	3,366
	-----	-----	-----
Other comprehensive loss at June 30, 2006	\$ (152,586)	\$ 31,594	\$ (120,992)
	=====	=====	=====

### (5) Stock-based Compensation:

Prior to January 1, 2006, we elected to follow Accounting Principles Board Opinion (APB) NO.25, Accounting for Stock Issued to Employees, and related interpretations to account for our employee and director stock options, as permitted by Statement of Financial Accounting Standards (SFAS) NO. 123, Accounting for Stock-Based Compensation. Effective January 1, 2006, we adopted the fair value recognition provision of SFAS No. 123 (revised 2004), Share-Based Payments, (SFAS No. 123(R) for all share-based payment awards to employees and directors including employee stock options. In addition, we have applied the provisions of Staff Accounting Bulletin No. 107 (SAB No. 107), issued by the Securities and Exchange Commission, in our adoption of SFAS No. 123(R).

We adopted SFAS No. 123(R) using the modified-prospective-transition method. Under this transition method, stock-based compensation expense recognized after the effective date includes: (1) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimate in accordance with the original provisions of SFAS No. 123, and (2) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimate in accordance with the provision of SFAS No. 123. Results from prior periods have not been restated and do not include the impact of SFAS No. 123(R). Stock-based compensation expense under SFAS No. 123(R) for the first quarter of 2006 was \$0, relating to employee and director stock options and our employee stock purchase plan. Stock-based compensation expense under the provision of APB No. 25 for the first quarter of 2005 was insignificant.

Stock-based compensation expense recognized each period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In our pro forma disclosures required under SFAS No. 123 for periods prior to 2006, we accounted for forfeitures as they occurred.

Upon adoption of SFAS No. 123(R), we elected to use the Black-Scholes-Merton option-pricing formula to value share-based payments granted to employees

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subsequent to January 1, 2006 and elected to attribute the value of stock-based compensation to expense using the straight-line single option method. These methods were previously used for our pro forma information required under SFAS No. 123.

On November 10, 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 123(R)-3, "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards", which detailed an alternative transition method for calculating the tax effects of stock-based compensation pursuant to SFAS No. 123(R). This alternative transition method included simplified methods to establish the beginning balance of the additional paid-in capital pool (APIC pool) related to the tax effects of employee stock-based compensation and to determine the subsequent impact on the APIC pool and Consolidated Statement of Cash Flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS No. 123(R). As all options outstanding have vested prior to December 31, 2005, the Company has not recorded the tax effects of employee stock-based compensation and have no APIC pool.

Prior to the adoption of SFAS No. 123(R) tax benefits of deductions resulting from the exercise of stock options were required to be presented as operating cash flows in the Consolidated Statement of Cash Flows. SFAS No. 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. As there have been no stock options exercised, the Company has not reported these excess tax benefits as of June 30, 2006.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R) for all share based payment awards to employees and directors including employee stock options granted under the Company's employee stock option plan. As all options outstanding have vested prior to December 31, 2006, no stock based compensation expense has been recorded as of June 30, 2006.

The following table presents the effect on net income and net income per share compared with pro forma information as if we had adopted SFAS No. 123 for the periods ended June 30,

	Three Months Ended June 30,	
	2006	2005
Net income as reported	\$ 270,771	\$ 79,328
Less stock-based compensation under the fair value method	--	--
Pro forma net loss	\$ 270,771	\$ 79,328
Earnings per share:		
Basic and diluted income per common share, as reported	\$.05	\$.02
Basic and diluted income per common share, including the Effect of stock-based compensation expense	\$.05	\$.02

Six Months Ended June 30,  
-----

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	2006	2005
Net income as reported	\$ 419,251	\$ 229,893
Less stock-based compensation under the fair value method	--	--
Pro forma net loss	\$ 419,251	\$ 229,893
Earnings per share:		
Basic income per common share, as reported	\$.09	\$.05
Basic income per common share, including the Effect of stock-based compensation expense	\$.09	\$.05
Diluted income per common share, as reported	\$.09	\$.05
Diluted income per common share, including the Effect of stock-based compensation expense	\$.08	\$.05

### (6) Subsequent Event

On July 17, 2006 the Company announced that it had executed a definitive agreement to acquire all of the issued and outstanding stock of Superior Galleries, Inc. in a transaction valued at \$ 14,000,000. For additional information regarding this transaction reference is made to the Company's Form 8-K filed on July 17, 2006.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

#### Results of Operations

Six months ended June 30, 2006 vs 2005:

Sales increased by \$ 8,726,641 (65.4%) in 2006. This increase was primarily the result of a \$6,019,000 (169.0%) increase in bullion sales, a \$ 1,132,000 (17.6%) increase in retail jewelry sales, a \$ 356,000 (18.3%) increase in wholesale jewelry sales and a \$ 1,355,000 (116.5%) increase in the sale of rare coin products. The increase in both retail and wholesale jewelry sales were due to higher gold prices and improved activity from our customers. The increase in rare coin and bullion sales were the result of an increase in gold prices, increased volatility in the bullion market and the Company's increased focus on these segments of our business. Consumer loan service fees increased \$22,187 in 2006 due to an increase in pay day loans outstanding during the period. Cost of goods as a percentage of sales increased from 80.7% in 2005 to 85.8 % in 2006. This increase was due to the increase in rare coin and bullion revenue as a percentage of total sales.

Selling, general and administrative expenses increased by \$309,348 or 14.3%. This increase was primarily due to an increase in staff and payroll related cost (\$180,000), higher advertising cost (\$73,000) and \$ 63,000 in cost related to the new pay day loan stores. The increase in staff was necessary to maintain a high level of customer service as sales increased and the opening of three pay day loan stores. The increase in advertising was necessary in order to attract new customers in our local markets. Depreciation and amortization decreased by \$12,856 during 2006 due to certain assets becoming fully depreciated.

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Income taxes are provided at the corporate rate of 34% for both 2006 and 2005.

Historically, changes in the market prices of precious metals have had a significant impact on both revenues and cost of sales in the rare coin and precious metals segments in which the Company operates. It is expected that due to the commodity nature of these products, future price changes for precious metals will continue to be indicative of the Company's performance in these business segments. Changes in sales and cost of sales in the retail and wholesale jewelry segments are primarily influenced by the national economic environment. It is expected that this trend will continue in the future due to the nature of these product.

Three months ended June 30, 2006 vs 2005:  
-----

Sales increased by \$ 5,735,902 (85.5%) in 2006. This increase was primarily the result of a \$4,132,000 (261.7%) increase in bullion sales, a \$ 924,000 (27.1%) increase in retail jewelry sales, a \$ 175,000 (17.4%) increase in wholesale jewelry sales and a \$ 570,000 (92.8%) increase in the sale of rare coin products. The increase in both retail and wholesale jewelry sales were due to higher gold prices and improved activity from our customers. The increase in rare coin and bullion sales were the result of an increase in gold prices, increased volatility in the bullion market and the Company's increased focus on these segments of our business. Consumer loan service fees increased \$9,741 in 2006 due to an increase in pay day loans outstanding during the period. Cost of goods as a percentage of sales increased from 81.2% in 2005 to 86.5% in 2006. This increase was due to the increase in rare coin and bullion revenue as a percentage of total sales.

Selling, general and administrative expenses increased by \$156,281 or 14.3%. This increase was primarily due to an increase in staff and payroll related cost (\$97,000), higher advertising cost (\$47,000) and \$ 16,000 in cost related to the new pay day loan stores. The increase in staff was necessary to maintain a high level of customer service as sales increased and the opening of three pay day loan stores. The increase in advertising was necessary in order to attract new customers in our local markets. Depreciation and amortization decreased by \$9,353 during 2006 due to certain assets becoming fully depreciated.

Historically, changes in the market prices of precious metals have had a significant impact on both revenues and cost of sales in the rare coin and precious metals segments in which the Company operates. It is expected that due to the commodity nature of these products, future price changes for precious metals will continue to be indicative of the Company's performance in these business segments. Changes in sales and cost of sales in the retail and wholesale jewelry segments are primarily influenced by the national economic environment. It is expected that this trend will continue in the future due to the nature of these product.

Income taxes are provided at the corporate rate of 34% for both 2006 and 2005.

### Liquidity and Capital Resources

Management of the Company expects capital expenditures to total approximately \$50,000 during the next twelve months. It is anticipated that these expenditures

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will be funded from working capital and its credit facility. As of June 30, 2006 there were no commitments outstanding for capital expenditures.

In the event of significant growth in retail and or wholesale jewelry sales, the demand for additional working capital will expand due to a related need to stock additional jewelry inventory and increases in wholesale accounts receivable. Historically, vendors have offered the Company extended payment terms to finance the need for jewelry inventory growth and management of the Company believes that they will continue to do so in the future. Any significant increase in wholesale accounts receivable will be financed under the Company's bank credit facility.

The ability of the Company to finance its operations and working capital needs are dependent upon management's ability to negotiate extended terms or refinance its debt. The Company has historically renewed, extended or replaced short-term debt as it matures and management believes that it will be able to continue to do so in the near future.

From time to time, management has adjusted the Company's inventory levels to meet seasonal demand or in order to meet working capital requirements. Management is of the opinion that if additional working capital is required, additional loans can be obtained from individuals or from commercial banks. If necessary, inventory levels may be adjusted or a portion of the Company's investments in marketable securities may be liquidated in order to meet unforeseen working capital requirements.

Contractual Cash Obligations	Payments due by year end				
-----	Total	2006	2007	2008	2009
-----	-----	-----	-----	-----	-----
Notes payable	\$ 194,183	194,183	--	--	--
Long-term debt and capital leases	3,984,074	148,074	3,118,904	\$ 381,654	\$ 74,670
Federal income taxes	154,898	154,898	--	--	--
Operating leases	396,907	85,296	137,418	100,994	54,890
	-----	-----	-----	-----	-----
	\$4,730,062	\$ 582,451	\$3,256,322	\$ 482,648	\$ 129,570
	=====	=====	=====	=====	=====

In addition, the Company estimates that it will pay approximately \$ 290,000 in interest during the next twelve months.

This report contains forward-looking statements which reflect the view of Company's management with respect to future events. Although management believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from such expectations are a down turn in the current strong retail climate and the potential for fluctuations in precious metals prices. The forward-looking statements contained herein reflect the current views of the Company's management and the Company assumes no obligation to update the forward-looking statements or to update the reasons actual results could differ from those contemplated by such forward-looking statements.

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### ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

The following discussion about the Company's market risk disclosures involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. The Company is exposed to market risk related to changes in interest rates and gold values. The Company also is exposed to regulatory risk in relation to its payday loans. The Company does not use derivative financial instruments.

The Company's earnings and financial position may be affected by changes in gold values and the resulting impact on pawn lending and jewelry sales. The proceeds of scrap sales and the Company's ability to liquidate excess jewelry inventory at an acceptable margin are dependent upon gold values. The impact on the Company's financial position and results of operations of a hypothetical change in gold values cannot be reasonably estimated.

### ITEM 4. Controls and Procedures

Controls and Procedures Under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of its disclosure controls and procedures, as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective in enabling the Company to record, process, summarize and report information required to be included in its periodic SEC filings within the required time period. There has been no change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II- OTHER INFORMATION

### Item 4. Submission of Matters to a vote of Security Holders

The Company's annual meeting of stockholders was held on June 27, 2006. The purpose of the meeting was the election of directors and approval of the 2006 equity incentive plan.

The following is a tabulation of voting at the meeting:

For election of directors

:	For	Withheld	Against or Abstentions
L.S. Smith	4,683,403	300	0
William Oyster	4,700,862	20,859	0
William Cordeiro	4,700,929	20,792	0
Craig Alan-Lee	4,700,929	20,792	0
Paul Hagen	4,700,929	20,792	0

For the approval of the 2006

Equity incentive plan	4,394,954	39,055	3,266
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### Item 5. Other Information

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On July 17, 2006 the Company announced that it had executed a definitive agreement to acquire all of the issued and outstanding stock of Superior Galleries, Inc. in a transaction valued at \$ 14,000,000. For additional information regarding this transaction reference is made to the Company's Form 8-K filed on July 17, 2006.

Item 6. Exhibits and Reports on Form 8-K.

Exhibits:

- 31.1 Certificate of L.S. Smith pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, Chief Executive Officer.
- 31.2 Certificate of John Benson pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, Chief Financial Officer .
- 32.1 Certificate of L.S. Smith pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Chief Executive Officer.
- 32.2 Certificate of John Benson pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Chief Financial Officer.

Reports on Form 8-K :

None

### SIGNATURES

In accordance with Section 13 and 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DGSE Companies, Inc.

By: /s/ L. S. Smith

Dated: August 10, 2006

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L. S. Smith  
Chairman of the Board,  
Chief Executive Officer and  
Secretary

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By: /s/ L. S. Smith Dated: August 10, 2006

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L. S. Smith  
Chairman of the Board,  
Chief Executive Officer and  
Secretary

By: /s/ W. H. Oyster Dated: August 10, 2006

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W. H. Oyster  
Director, President and  
Chief Operating Officer

By: /s/ John Benson Dated: August 10, 2006

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John Benson  
Chief Financial Officer  
(Principal Accounting Officer)