

Edgar Filing: DGSE COMPANIES INC - Form 10QSB

DGSE COMPANIES INC
Form 10QSB
April 27, 2004

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

(Mark One)

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

For the quarterly period ended March 31, 2004

() 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 small business 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 April 14, 2004
-----	-----
Common Stock, \$.01 per value	4,913,290

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

DGSE Companies, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	(Unaudited)	
	March 31, 2004	December 31, 2003
	-----	-----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 54,438	\$ 735,293
Trade receivables	715,255	774,586
Other receivables	204,430	204,430
Inventories	6,887,659	6,673,865
Prepaid expenses	143,073	149,277
	-----	-----
Total current assets	8,004,855	8,537,451
MARKETABLE SECURITIES - AVAILABLE FOR SALE	349,818	243,446
PROPERTY AND EQUIPMENT - AT COST, NET	957,896	989,966
GOODWILL	1,151,120	1,151,120
OTHER ASSETS	150,497	149,546
	-----	-----
	\$ 10,614,186	\$ 11,071,529
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable	\$ 2,403,059	\$ 541,546
Current maturities of long-term debt	197,315	197,315
Accounts payable - trade	512,864	859,269
Accrued expenses	214,202	705,756
Customer deposits	91,499	150,088
Federal income taxes payable	308,654	512,991
	-----	-----
Total current liabilities	3,727,593	2,966,965
Long-term debt, less current maturities	1,209,438	2,719,482
Deferred income taxes	58,911	22,743
	-----	-----
Total liabilities	4,995,942	5,709,190
SHAREHOLDERS' EQUITY		
Common stock, \$.01 par value; authorized 10,000,000 shares; issued and outstanding 4,913,290 shares at March 31, 2004 and December 31, 2003	49,133	49,133
Additional paid-in capital	5,708,760	5,708,760
Accumulated other comprehensive income	70,206	--

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Retained earnings (deficit)	(209,855)	(395,554)
	-----	-----
Total shareholders' equity	5,618,244	5,362,339
	\$ 10,614,186	\$ 11,071,529
	=====	=====

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

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

	March 31, 2004	March 31, 2003
	-----	-----
Revenue		
Sales	\$ 6,848,946	\$ 5,217,920
Pawn services charges	47,630	41,882
	-----	-----
	6,896,576	5,259,802
Costs and expenses		
Cost of goods sold	5,486,910	4,190,058
Selling, general and administrative expenses	1,020,966	976,462
Depreciation and amortization	35,285	34,788
	-----	-----
	6,543,161	5,201,308
Operating income	353,415	58,494
	-----	-----
Other income (expense)		
Interest expense	(72,053)	(68,030)
	-----	-----
Total other income (expense)	(72,053)	(68,030)
Income (loss) before income taxes	281,362	(9,536)
Income tax expense (benefit)	95,663	(3,242)
	-----	-----
Net income (loss) from continuing operations	185,699	(6,294)
Loss from discontinued operations, net of income taxes	--	(15,149)
	-----	-----
Net income (loss)	\$ 185,699	\$ (21,443)
	=====	=====

Earnings per common share

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Basic and diluted	\$.04	--
	=====		=====
Weighted average number of common shares:			
Basic		4,913,290	4,913,790
Diluted		5,137,431	4,913,790

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

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DGSE COMPANIES, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2004	2003
	-----	-----
Cash Flows From Operations		
Reconciliation of net loss to net cash used in operating activities		
Net income (loss)	\$ 185,699	\$ (21,443)
Depreciation and amortization	35,285	42,018
Deferred taxes	--	(11,046)
(Increase) decrease in operating assets and liabilities		
Trade receivables	59,331	174,824
Inventories	(213,794)	(236,911)
Prepaid expenses and other current assets	6,204	(3,488)
Accounts payable and accrued expenses	(837,959)	(620,937)
Federal income taxes payable	(204,337)	(150,000)
Other assets	(951)	(18,044)
	-----	-----
Total net cash used in operating activities	(970,522)	(845,027)
Cash flows from investing activities		
Purchase of property and equipment	(4,164)	(2,393)
Change in deposits	(58,589)	69,964
	-----	-----
Net cash (used) provided by investing activities	(62,753)	67,571
Cash flows from financing activities		
Proceeds from notes issued	625,000	625,000
Payments on notes payable	(272,580)	(219,680)
	-----	-----
Net cash provided by financing activities	352,420	405,320
	-----	-----
Net decrease in cash and cash equivalents	(680,855)	(372,136)

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Cash and cash equivalents at beginning of year	735,293	498,408
	-----	-----
Cash and cash equivalents at end of period	\$ 54,438	\$ 126,272
	=====	=====

Supplemental schedule of non-cash, investing and financing activities:

Interest paid for the three months ended March 31, 2004 and 2003 was \$ 72,053 and \$ 68,030, respectively.

Income taxes paid for the three months ended March 31, 2004 and 2003 was \$300,000 and \$150,000, respectively.

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

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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., Silverman Consultants, Inc. and Charleston Gold And Diamond Exchange, 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 three months ended March 31, 2004, are not necessarily indicative of the results that may be expected for the year ended December 31, 2004. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-KSB for the year ended December 31, 2003. Certain reclassifications were made to the prior year's consolidated financial statements to conform to the current year presentation.

(2) Earnings per share

No reconciliation is provided for the periods ended March 31 2004 and 2003 because the effect is not dilutive.

(3) Business segment information

The Company's operations by business segment for the three months ended March 31, were as follows:

	Jewelry	Liquidations	Discontinued Operations	Corporate & Other	Consolidat
	-----	-----	-----	-----	-----
Revenues					

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2004	\$ 6,799,082	\$ 97,494	\$ --	\$ --	\$ 6,896,5
2003	\$ 5,141,927	\$ 117,875	\$ --	\$ --	\$ 5,259,8
Net income (loss)					
2004	\$ 237,729	\$ (31,995)	\$ --	\$ (20,035)	\$ 185,6
2003	\$ 19,269	\$ (9,722)	\$ (15,149)	\$ (15,841)	\$ (21,4
Identifiable assets					
2004	\$ 9,673,272	\$ 331,678	\$ --	\$ 609,236	\$ 10,614,1
2003	\$ 9,499,275	\$ 775,700	\$ --	\$ 3,002	\$ 10,277,9
Capital expenditures					
2004	\$ 4,164	\$ --	\$ --	\$ --	\$ 4,1
2003	\$ 2,393	\$ --	\$ --	\$ --	\$ 2,3
Depreciation and amortization					
2004	\$ 33,410	\$ --	\$ --	\$ 1,875	\$ 35,2
2003	\$ 40,143	\$ 1,875	\$ --	\$ --	\$ 42,0

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(4) Other Comprehensive income:

Other comprehensive income is as follows:

	Before Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
	-----	-----	-----
Other comprehensive income at December 31, 2003	\$ --	\$ --	\$ --
Unrealized holding gains arising during the Three months ended March 31, 2004	106,373	(36,167)	70,206
	-----	-----	-----
Other comprehensive income at March 31, 2004	\$ 106,373	\$ (36,167)	\$ 70,206
	=====	=====	=====
Other comprehensive income loss at December 31, 2002	\$ (1,728,130)	\$ 593,180	\$ (1,134,950)
Unrealized holding gains arising during the Three months ended March 31, 2003	75,278	(25,594)	49,684
	-----	-----	-----
Other comprehensive income (loss) at March 31, 2003	\$ (1,652,852)	\$ 567,586	\$ (1,085,266)
	=====	=====	=====

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(5) Stock-based Compensation:

The Company accounts for stock-based compensation to employees using the intrinsic value method. Accordingly, compensation cost for stock options to employees is measured as the excess, if any, of the quoted market price of the Company's common stock at the date of the grant over the amount an employee must pay to acquire the stock.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	Three Months Ended March 31,	
	2004	2003
Net income(loss) as reported	\$ 185,699	\$ (21,443)
Deduct: Total stock-based employee compensation Expense determined under fair value based method For all awards, net of related tax effects	--	--
Pro forma net loss	\$ 185,699	\$ (21,443)
Earnings per share:		
Basic - as reported	\$.04	--
Basic - pro forma	\$.04	--
Diluted - as reported	\$.04	--
Diluted pro forma	\$.04	--

The fair value of these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants after 1998, expected volatility of 70% to 96%, risk-free rate of 3.9% to 6.6%, no dividend yield and expected life of 5 to 8 years.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Results of Operations

Quarter ended March 31, 2004 vs 2003:

Revenue for the first quarter of 2004 increased by \$ 1,636,774 or 31.1% when compared to the corresponding quarter of 2003. The increase was the result of a \$ 1,657,155 increase in sales from the jewelry segment. The increase in jewelry segment sales was the result of a \$ 630,214 increase in precious metal sales and a \$ 1,026,941 increase in jewelry sales. These increases were due to a nation-wide improvement in the retail environment and significant price increases in precious metal products. Pawn service fees increased by 13.7% due to an increase in loan volume. Cost of sales increased primarily due to the

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increase in sales. Gross margins increased from 19.7% in 2003 to 19.9% in 2004 due to the increase in sales of jewelry products.

Selling, general and administration expenses increased by \$ 44,504 due an increase in sales staff. Income taxes are provided at the corporate rate of 34% for both 2004 and 2003

Loss from discontinued operations during 2003 in the amount of \$ 15,149 net of income taxes is the combined results of two subsidiaries of the Company, DLS Financial Services, Inc. and eye media, inc. The operations of these two companies were discontinued during 2003.

Liquidity and Capital Resources

The Company's short-term debt, including current maturities of long-term debt totaled \$2,600,374 as of March 31, 2004. 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 short-term debt. The Company has historically renewed, extended or replaced short-term debt as it matures and management believes that it will be able to do so in the future as short-term debt matures.

Management of the Company expects capital expenditures to total approximately \$50,000 during the balance of 2004. It is anticipated that these expenditures will be funded from working capital.

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 working capital requirements.

Contractual Cash Obligations

	Total	Payments due by year e			
	-----	-----	-----	-----	-----
	Total	2004	2005	2006	2007
	-----	-----	-----	-----	-----
Notes payable	\$2,403,059	\$ 278,059	\$2,125,000	--	--
Long-term debt and capital leases	1,406,753	185,224	\$ 484,737	\$ 137,906	\$ 135,33
Federal income taxes	308,654	308,654	--	--	--
Operating leases	354,027	175,570	148,205	18,886	11,36
	-----	-----	-----	-----	-----
	\$4,472,493	\$ 947,507	\$2,757,942	\$ 156,792	\$ 146,69
	=====	=====	=====	=====	=====

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.

ITEM 3. Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures within 90 days of the filing date of this quarterly report, and, based on their evaluation, our principal executive officer and principal financial officer have concluded that these controls and procedures are effective. There are no significant changes in our internal controls or other factors that could significantly affect these controls subsequent to the date of their evaluation. Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- 31.1 Certificate of L.S. Smith pursuant to Section 3026 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

