

DGSE COMPANIES INC
Form 10-Q
November 13, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

or

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

For the transition period from ___ to ___

Commission File Number 1-11048

DGSE Companies, Inc.

(Exact name of registrant as specified in its charter)

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

15850 Dallas Parkway, Suite 140

Dallas, Texas 75248

(972) 587-4049

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

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of November 13, 2014:

Class	Outstanding
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Common stock, \$0.01 par value per share 12,223,584

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

DGSE COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,950,854	\$ 2,637,726
Trade receivables, net of allowances	224,946	162,670
Inventories	11,196,056	9,992,156
Prepaid expenses	206,980	138,600
Assets related to discontinued operations	22,057	3,711,740
Total current assets	13,600,893	16,642,892
Property and equipment, net	4,442,826	4,588,695
Intangible assets, net	31,014	41,353
Other assets	113,474	189,425
Noncurrent assets related to discontinued operations	-	3,441,766
Total assets	\$ 18,188,207	\$ 24,904,131
LIABILITIES		
Current Liabilities:		
Current maturities of line of credit, related party	\$ 2,303,359	\$ -
Current maturities of long-term debt	128,833	122,536
Current maturities of capital leases	11,448	11,091
Accounts payable-trade	5,043,843	5,535,624
Accrued expenses	1,489,267	1,729,528
Customer deposits and other liabilities	1,485,218	2,349,943
Liabilities related to discontinued operations	345,777	589,899
Total current liabilities	10,807,745	10,338,621
Line of credit, related party	-	2,383,359
Long-term debt, less current maturities	1,651,769	1,757,827
Total liabilities	12,459,514	14,479,807
Commitments and contingencies		

STOCKHOLDERS' EQUITY

Common stock, \$0.01 par value; 30,000,000 shares authorized; 12,223,584 and 12,175,584 shares issued and outstanding	122,235	121,755
Additional paid-in capital	34,145,173	34,045,654
Accumulated deficit	(28,538,715)	(23,743,085)
Total stockholders' equity	5,728,693	10,424,324
 Total liabilities and stockholders' equity	 \$ 18,188,207	 \$ 24,904,131

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

DGSE COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue:				
Sales	\$ 17,040,249	\$ 18,999,701	\$ 52,622,968	\$ 66,304,892
Cost of goods sold	13,905,844	15,687,340	43,267,708	56,532,284
Gross margin	3,134,405	3,312,361	9,355,260	9,772,608
Expenses:				
Selling, general and administrative expenses	2,936,556	3,809,548	9,632,784	10,354,913
Depreciation and amortization	99,893	87,326	288,600	269,113
	3,036,449	3,896,874	9,921,384	10,624,026
Operating income (loss)	97,956	(584,513)	(566,124)	(851,418)
Other expense (income):				
Other (income) expense, net	(5,717)	(2,250)	(44,679)	213
Interest expense	89,239	66,604	258,383	170,566
	83,522	64,354	213,704	170,779
Income (loss) from continuing operations before income taxes	14,434	(648,867)	(779,828)	(1,022,197)
Income tax expense	1,604	214,414	29,975	174,379
Income (loss) from continuing operations	12,830	(863,281)	(809,803)	(1,196,576)
Discontinued operations:				
Income (loss) from discontinued operations, net of taxes	166,757	(568,673)	(3,985,827)	(1,057,523)
Net income (loss)	\$ 179,587	\$(1,431,954)	\$(4,795,630)	\$(2,254,099)
Basic net income (loss) per common share:				
Income (loss) from continuing operations	\$ 0.00	\$(0.07)	\$(0.06)	\$(0.10)
Income (loss) from discontinued operations	0.01	(0.05)	(0.33)	(0.09)
Net income (loss) per share	\$ 0.01	\$(0.12)	\$(0.39)	\$(0.19)
Diluted net income (loss) per common share:				
Income (loss) from continuing operations	\$ 0.00	\$(0.07)	\$(0.06)	\$(0.10)
Income (loss) from discontinued operations	0.01	(0.05)	(0.33)	(0.09)
Net income (loss) per share	\$ 0.01	\$(0.12)	\$(0.39)	\$(0.19)

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Weighted-average number of common shares				
Basic	12,223,584	12,175,584	12,209,416	12,175,584
Diluted	12,271,362	12,175,584	12,209,416	12,175,584

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

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

	Nine Months Ended September 30,	
	2014	2013
Cash Flows From Operating Activities:		
Net loss	\$(4,795,630)	\$(2,254,099)
Loss from discontinued operations	(3,985,827)	(1,057,523)
Loss from continuing operations	(809,803)	(1,196,576)
Adjustments to reconcile loss from continuing operations to net cash (used in) provided by operating activities of continuing operations:		
Depreciation and amortization	288,600	269,113
Stock based compensation	45,118	-
Changes in operating assets and liabilities:		
Trade receivables, net	(62,276)	442,730
Inventories	320,964	(464,004)
Prepaid expenses	(68,380)	36,387
Other assets	60,510	(44,013)
Accounts payable and accrued expenses	(744,372)	1,656,627
Customer deposits and other liabilities	(864,725)	(694,598)
Net cash (used in) provided by operating activities of continuing operations	(1,834,364)	5,666
Cash Flows From Investing Activities:		
Purchases of property and equipment	(141,887)	(619,894)
Net cash used in investing activities of continuing operations	(141,887)	(619,894)
Cash Flows From Financing Activities:		
Repayment of debt	(91,131)	(116,010)
Payments on capital lease obligations	(8,274)	(28,119)
Repayment of line of credit with related party	(80,000)	-
Net cash used in financing activities of continuing operations	(179,405)	(144,129)
Cash Flows From Discontinued Operations:		
Net cash provided by (used in) operating activities of discontinued operations	1,468,784	(364,572)
Net change in cash	(686,872)	(1,122,929)
Cash, beginning of period	2,637,726	3,060,305
Cash, end of period	\$1,950,854	\$1,937,376

Supplemental Disclosures:

Cash paid during the period for:

Interest	\$223,880	\$59,468
Income taxes	-	-

Noncash item:

Transfer of inventory from discontinued operations	\$1,524,864	\$-
Equipment purchased with capital lease	\$-	\$58,563

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

The consolidated interim financial statements of DGSE Companies, Inc., a Nevada corporation, and its subsidiaries (the “Company” or “DGSE”), included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to the Commission’s rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. The Company suggests that these financial statements be read in conjunction with the financial statements and notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (such fiscal year, “Fiscal 2013” and such annual Report on Form 10-K, the “Fiscal 2013 10-K”). In the opinion of the management of the Company, the accompanying unaudited interim financial statements contain all adjustments, consisting only of those of a normal recurring nature, necessary to present fairly its results of operations and cash flows for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year. Certain reclassifications were made to the prior year's consolidated financial statements to conform to the current year presentation.

(2) Principles of Consolidation and Nature of Operations

DGSE buys and sells jewelry and bullion products to both retail and wholesale customers throughout the United States through its facilities in Illinois, South Carolina, and Texas, and through its various internet sites. Until recently, the Company also operated retail locations in Alabama, Florida, Georgia, and Tennessee.

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

(3) Critical Accounting Policies and Estimates

Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value because of the immediate or short-term maturity of these financial instruments. The line of credit, related party does not bear a market rate of interest. Management believes that, based on the Company's situation at the time the line was negotiated, it could not have obtained comparable financing, and as such cannot estimate the fair value of the line of credit, related party. The carrying amounts reported for the Company's long-term debt, and capital leases approximate fair value because substantially all of the underlying instruments have variable interest rates, which adjust frequently, or the interest rates approximate current market rates. None of these instruments are held for trading purposes.

Earnings Per Share

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

Recent Accounting Pronouncement

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

(4) Inventories

A summary of inventories is as follows:

	September 30, 2014	December 31, 2013
Jewelry	\$ 9,548,867	\$ 7,502,381
Scrap gold	635,618	514,622
Bullion	627,555	1,024,648
Rare coins and other	384,016	950,505
	\$ 11,196,056	\$ 9,992,156

(5) Basic and Diluted Average Shares

A reconciliation of basic and diluted weighted average common shares for the three and nine months ended September 30, 2014 and 2013, is as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Basic weighted average shares	12,223,584	12,175,584	12,209,416	12,175,584
Effect of potential dilutive securities:				
Restricted Stock Units	47,778	-	-	-
Diluted weighted average shares	12,271,362	12,175,584	12,209,416	12,175,584

For the three and nine months ended September 30, 2014 and 2013, options to purchase 5,327,500 and 5,372,500 shares of common stock, respectively, were not added to the diluted average shares because inclusion of such shares would be antidilutive. For the three and nine months ended September 30, 2014, there were 0 and 42,145 unvested Restricted Stock Units ("RSUs"), respectively, not added to the diluted average shares because inclusion of such shares would be antidilutive. No RSUs were outstanding for the three and nine months ended September 30, 2013.

(6) Long-Term Debt

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	Outstanding Balance		Current Interest Rate	Maturity
	September 30, 2014	December 31, 2013		
NTR line of credit (1)	\$2,303,359	\$ 2,383,359		