

DGSE COMPANIES INC
Form 10-K
April 15, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

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

For the fiscal year ended December 31, 2010

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

Commission File No. 001-11048

DGSE COMPANIES, INC.
(Exact name of registrant as specified in its charter)

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

11311 Reeder Road
Dallas, Texas 75229
972-484-3662
(Address, including zip code, and telephone
number, including area code, of registrant's
principal executive offices)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$.01 per
share
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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YES [] NO []

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

YES [] NO []

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 "larger accelerated filer," "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 [] (Do not check if a smaller reporting company) 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 []

| | |
|--|--------------|
| Aggregate market value of the 3,774,762 shares of Common Stock held by non-affiliates of the registrant at the closing sales price as reported on the NYSE Amex on June 30, 2010 | \$11,965,995 |
| Number of shares of Common Stock outstanding as of the close of business on April 13, 2010: | 9,986,100 |

Documents incorporated by reference:

Portions of the definitive proxy statement relating to the 2011 Annual Meeting of Stockholders of DGSE Companies, Inc. are incorporated by reference into Part III of this report.

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ITEM 1. BUSINESS.

Overview

Unless the context indicates otherwise, references to "we," "us", "our" and "DGSE" refers to the consolidated business operations of DGSE Companies, Inc., the parent, and all of its direct and indirect subsidiaries.

We buy and sell jewelry, bullion products and rare coins. Our customers include individual consumer, dealers and institutions throughout the United States. Our products and services are marketed through our facilities in Dallas and Euless, Texas; Mt. Pleasant, South Carolina; Woodland Hills, California and through our internet web sites DGSE.com; CGDEinc.com; SGBH.com; SuperiorPreciousMetals.com; SuperiorEstateBuyers.com; USBullionExchange.com; Americangoldandsilverexchange.com; and FairchildWatches.com.

We operate eight primary internet sites and over 900 related landing sites on the World Wide Web. Through the various sites we operate a virtual store, real-time auction of rare coin and jewelry products, free quotations of current prices on all commonly traded precious metal and related products, trading in precious metals, a mechanism for selling unwanted jewelry, rare coins and precious metals and wholesale prices and information exclusively for dealers on pre-owned fine watches. Over 7,500 items are available for sale on our internet sites including \$2,000,000 in diamonds.

On May 9, 2007 we purchased all of the tangible assets of Euless Gold and Silver, Inc., located in Euless, Texas. We opened a new retail store in the former Euless Gold & Silver facility and it operates under the name of Dallas Gold & Silver Exchange.

On May 30, 2007, we completed the acquisition of Superior Galleries, Inc. located in Beverly Hills, California. In June 2008, we moved Superior Galleries operations from Beverly Hills to Woodland Hills, California. Superior's principal line of business is the sale of rare coins on a retail and wholesale basis. Superior's retail and wholesale operations are conducted in virtually every state in the United States. Superior also conducted live and internet auctions for customers seeking to sell their own coins prior to management's decision to discontinue the live auction operations. Superior markets its services nationwide through broadcast and print media and independent sales agents, as well as on the internet through third party websites, and through its own website at SGBH.com.

On August 3, 2007 we announced the launch of Americangoldandsilverexchange.com along with the simultaneous activation of over 900 proprietary Internet sites related to the home page of Americangoldandsilverexchange.com. This site, along with our existing locations in Texas, California and South Carolina, provides customers from all over the United States with a seamless and secure way to value and sell gold, silver, rare coins, jewelry, diamonds and watches.

Late in 2007, Superior Estate Buyers was launched to bring our unique expertise in the purchase of gold, silver, diamonds, rare coins and other collectibles to local markets with a team of traveling professionals for short-term buying events. .

Superior Precious Metals was also launched in late 2007 and functions as a retail precious metals arm of DGSE. Professional account managers provide a convenient way for individuals and companies to buy and sell precious metals and rare coins. This activity is supported by the internally developed account management and trading platform created as part of DGSE's USBullionExchange.com precious metals system.

In June 2009 we sold the assets of National Jewelry Exchange, Inc. (our two pawn shops) to an unrelated third party.

Products and Services

Our jewelry operations include sales to both wholesale and retail customers. We sell finished jewelry, gem stones, and findings (gold jewelry components) and make custom jewelry to order. Jewelry inventory is readily available from wholesalers throughout the United States. In addition, we purchase inventory from pawn shops and individuals. Jewelry repair is also available to our customers in our all of our store locations.

Our bullion and rare coin trading operations buy and sell all forms of precious metals products including United States and other government coins, medallions, art bars and trade unit bars. Bullion and rare coin transactions are conducted at all of our store locations.

Bullion and rare coin products are purchased and sold based on current market price. The availability of precious metal products is a function of price as virtually all bullion items are actively traded. Precious metals sales amounted to 52.1% of total revenues for 2010, 50.0% in 2009 and 43.2% in 2008.

We have a jewelry super store located in Mt. Pleasant, South Carolina. The store operates through a wholly owned subsidiary, Charleston Gold and Diamond Exchange, Inc. ("CGDE"). CGDE operates in a leased facility located in Mt. Pleasant, South Carolina.

Our primary presence on the internet is through our websites DGSE.com, CGDEinc.com, SGBH.com, Superiorpreciousmetals.com, Superiorestatebuyers.com, USBullionexchange.com, Americangoldandsilverexchange.com, and Fairchildwatches.com. The DGSE.com web site serves as a corporate information site, a retail store where we sell our products and an auction site for jewelry and other products. The internet store functions as a CyberCash™ authorized site which allows customers to purchase products automatically and securely on line.

The SGBH.com website services as a primary rare coin marketing site and also includes a retail store.

Americangoldandsilverexchange.com provides customers from all over the United States with a simple and secure method to sell unwanted valuables by sending them directly to our corporate facilities for evaluation. Customers are provided with a firm purchase price which they can reject or accept for immediate payment.

Our internet activity also includes a web site, USBullionExchange.com, which allows customers unlimited access to current quotations for prices on approximately 200 precious metals, coins and other bullion related products. This web site allows customers to enter immediate real-time buy and sell orders in dozens of precious metal products. This functionality allows our customers to fix prices in real time and to manage their precious metals portfolios in a comprehensive way.

We also offer wholesale customers a virtual catalog of our fine watch inventory through our web site Fairchildwatches.com.

We did not have any customer or supplier that accounted for more than 10% of total sales or purchases during 2009 or 2008. However in 2010, 27.0% of our sales and 11.6% of our purchases were transactions with NTR Metals, LLC ("NTR").

On May 25, 2010, we entered into a Closing Agreement, dated May 25, 2010 with NTR, a Texas limited liability company, and Dr. L.S. Smith, our CEO. Pursuant to the Closing Agreement and that certain Purchase and Sale Agreement (and Amendments thereto), dated January 27, 2010, by and among us and Stanford International Bank, Ltd. ("SIBL"), an entity organized under the laws of Antigua, we assigned our right to acquire three million (3,000,000)

shares of our common stock, par value \$0.01 per share (the “NTR Acquired Interest”), from SIBL to NTR, whereby NTR acquired the NTR Acquired Interest directly from SIBL for a cash purchase price of \$3,600,000 paid to SIBL by NTR.

Simultaneously with the Closing, NTR granted to Dr. Smith a 4-year proxy (the “NTR Proxy”) on the NTR Acquired Interest. NTR will not be represented on our Board of Directors, nor will NTR be otherwise involved in the management of the Registrant. In addition, NTR has entered into a one-year Lock-Up Agreement on the NTR Acquired Interest. In exchange for NTR’s grant of the NTR Proxy, Dr. Smith granted to NTR an option (the “Option”) to acquire one million (1,000,000) shares of our common stock owned by Dr. Smith, at an exercise price of \$6.00 per share for the first two years following the anniversary of the Closing. If the Option remains unexercised on the second anniversary following the Closing, then the exercise price shall increase to \$10.00 per share for the third and fourth years following the anniversary of Closing. The NTR Proxy shall terminate, and the voting rights on the NTR Acquired Interest shall revert back to NTR, upon the occurrence of: 1) NTR’s exercise of the Option at any time during the four-year Option period; or 2) the death of Dr. Smith.

Pursuant to the Closing Agreement, NTR has been granted piggy-back registration rights with respect to those shares of the NTR Acquired Interest that remain restricted securities (the "Remaining Shares"). The Remaining Shares may, in the event that we propose to register any of its securities for public sale under the Securities Act of 1933, as amended (the "Securities Act"), and upon timely written request from NTR, be included in the registration statement covering those securities being registered for sale by DGSE under the Securities Act.

Sales and Marketing

All of our activities rely heavily on local television, radio and print media advertising. Marketing activities emphasize our broad and unusual array of products and services and the attractiveness of its pricing and service.

We market our bullion and rare coin trading services through a combination of advertising in national coin publications, local print media, coin and bullion wire services and our internet web site. Trades are primarily with coin and bullion dealers on a "cash on confirmation" basis which is prevalent in the industry. Cash on confirmation means that once credit is approved the buyer remits funds by mail or wire concurrently with the mailing of the precious metals. Customer orders for bullion or rare coin trades are customarily delivered within three days of the order or upon clearance of funds depending on the customer's credit standing. Our backlogs for fabricated jewelry products were not significant as of December 31, 2010, 2009 and 2008.

Seasonality

The retail and wholesale jewelry business is seasonal. We realized 31.9%, 25.9% and 22.2% of our annual sales in the fourth quarters of 2010, 2009 and 2008, respectively.

While our bullion and rare coin business is not seasonal, management believes it is directly impacted by the perception of inflation trends. Historically, anticipation of increases in the rate of inflation has resulted in higher levels of interest in precious metals as well as higher prices for such metals. Our other business activities are not seasonal.

Competition

We operate in a highly competitive industry where competition is based on a combination of price, service and product quality. Our jewelry activities compete with numerous other retail jewelers in Dallas and Euless, Texas; Woodland Hills, California; and Mt. Pleasant, South Carolina and the surrounding areas.

The bullion and rare coin industry in which we compete is dominated by substantially larger enterprises which wholesale bullion, rare coin and other precious metal products.

We attempt to compete in all of our activities by offering high quality products and services at prices below that of our competitors and by maintaining a staff of highly qualified employees.

Employees

As of December 31, 2010, we employed 70 individuals, 66 of whom were full time employees.

Available Information

Our website is located at www.dgse.com. Through this website, we make available free of charge all of our Securities and Exchange Commission filings. In addition, a complete copy of our Code of Ethics is available through this

website.

Discontinued Operations and Acquisitions

Discontinued Operations.

In December 2008 we decided to discontinue the live auction segment of the Company's business activities. This decision was based on the substantial losses being incurred by this operating segment during 2008 and 2007. As a result, the operating results of the auction segment have been reclassified to discontinued operations for 2008 and 2009. During 2008 the auction segment incurred a pretax loss of \$2,379,151 and during 2009 the auction segment incurred a pretax loss of \$795,328. The 2009 loss is the last of the charges from the auction segment.

In June 2009 we sold the assets of National Jewelry Exchange, Inc. (our two pawn shops) to an unrelated third party for cash in the amount of \$1,324,450. The proceeds were used to retire \$400,000 of our bank debt and the balance was used for working capital. As a result, operating results from National Jewelry Exchange have been reclassified to discontinued operations for all periods presented.

In November 2009 we discontinued the operations of Superior Estate Buyers due to operating loss incurred during the first half of 2009 in the amount of \$87,120.

As a result, operating results from these business segments have been reclassified to discontinued operations for all periods presented. As of December 31, 2010 there were no operating assets to be disposed of or liabilities to be paid in completing the disposition of these operations.

ITEM 1A. RISK FACTORS.

You should carefully consider the risks described below before making an investment decision. We believe these are all the material risks currently facing our business. 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 financial statements and related notes.

Changes in customer demand for our products and services could result in a significant decrease in revenues.

Although our customer base commonly uses our products and services, our failure to meet changing demands of our customers could result in a significant decrease in our revenues.

Changes in governmental rules and regulations applicable to the specialty financial services industry could have a negative impact on our lending activities.

Our lending is subject to extensive regulation, supervision and licensing requirements under various federal, state and local laws, ordinances and regulations. New laws and regulations could be enacted that could have a negative impact on our lending activities.

Fluctuations in our inventory turnover and sales.

We regularly experience fluctuations in our inventory balances, inventory turnover and sales margins, yields on loan portfolios and pawn redemption rates. Changes in any of these factors could materially and adversely affect our profitability and ability to achieve our planned results.

Changes in our liquidity and capital requirements could limit our ability to achieve our plans.

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 exceeds planned costs, our ability to build new stores or to operate new stores profitably could be materially restricted. The DGSE credit agreement also limits the allowable amount of capital expenditures in any given fiscal year, which could limit our ability to build new stores.

Changes in competition from various sources could have a material adverse impact on our ability to achieve our plans.

In the coins and other collectibles business, we will compete with a number of comparably sized and smaller firms, as well as a number of larger firms throughout the United States. Our primary competitors are American Numismatic Rarities, a comparably-sized coin auctioneer. Many of our competitors have the ability to attract customers as a result of their reputation and the quality collectibles they obtain through their industry connections. Additionally, other reputable companies that sell rare coins and other collectibles may decide to enter our markets to compete with us. These companies have greater name recognition and have greater financial and marketing resources than we do. If these auction companies are successful in entering the specialized market for premium collectibles in which we participate or if dealers and sellers participate less in our auctions, we may attract fewer buyers and our revenue could decrease.

Our earnings could be negatively impacted by an unfavorable outcome of litigation, regulatory actions, or labor and employment matters.

From time to time, we are involved in litigation, regulatory actions and labor and employment matters arising from our normal operations. There can be no assurance as to the ultimate outcome of any future actions and that they will not have a material adverse effect on our financial condition, results of operation or liquidity.

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. Each store is part of an information network that permits us to maintain adequate cash inventory, reconcile cash balances daily and report revenues and expenses timely. 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.

A failure of our internal controls and disclosure controls and procedures could have a material adverse impact on us and our investors' confidence in our reported financial information.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or internal controls over financial reporting will 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 company 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 we fail to maintain a system of effective internal controls, it could have a material adverse effect on our business, financial position or operating results. Additionally, adverse publicity related to a failure in our internal controls over financial reporting could have a negative impact on our reputation and business.

This Annual Report on Form 10-K does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report on Form 10-K.

Changes in general economic conditions could negatively affect loan performance and demand for our products and services.

A sustained deterioration in the economic environment could adversely affect our operations by reducing consumer demand for the products we sell.

Interest rate fluctuations could increase our interest expense.

Although the U.S. Federal Reserve halted a sustained period of regular interest rate hikes in August 2006, interest rates could rise which would, in turn, increase our cost of borrowing.

Our success depends on our ability to attract, retain and motivate management and other skilled employees.

Our future success and growth depend on the continued services of our 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. 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 many of our employees. Our loss of key personnel, especially without advance notice, or our inability to hire or retain qualified personnel, could have a material adverse effect on sales and our ability to maintain our technological edge. 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.

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.

On May 25, 2010, we entered into a Closing Agreement, dated May 25, 2010 with NTR Metals, LLC, a Texas limited liability company, and Dr. L.S. Smith, our CEO. Pursuant to the Closing Agreement and that certain Purchase and Sale Agreement (and Amendments thereto), dated January 27, 2010, by and among us and Stanford International Bank, Ltd. ("SIBL"), an entity organized under the laws of Antigua, we assigned our right to acquire three million (3,000,000) shares of our common stock, par value \$0.01 per share (the "NTR Acquired Interest"), from SIBL to NTR, whereby NTR acquired the NTR Acquired Interest directly from SIBL for a cash purchase price of \$3,600,000 paid to SIBL by NTR.

Simultaneously with the Closing, NTR granted to Dr. Smith a 4-year proxy (the "NTR Proxy") on the NTR Acquired Interest. NTR will not be represented on our Board of Directors, nor will NTR be otherwise involved in the management of the Registrant. In addition, NTR has entered into a one-year Lock-Up Agreement on the NTR Acquired Interest. In exchange for NTR's grant of the NTR Proxy, Dr. Smith granted to NTR an option (the "Option") to acquire one million (1,000,000) shares of our common stock owned by Dr. Smith, at an exercise price of \$6.00 per share for the first two years following the anniversary of the Closing. If the Option remains unexercised on the second anniversary following the Closing, then the exercise price shall increase to \$10.00 per share for the third and fourth years following the anniversary of Closing. The NTR Proxy shall terminate, and the voting rights on the NTR Acquired Interest shall revert back to NTR, upon the occurrence of: 1) NTR's exercise of the Option at any time during the four-year Option period; or 2) the death of Dr. Smith.

We could be subject to sales taxes, interest and penalties on interstate sales for which we have not collected taxes.

Superior has not collected California sales tax on mail-order sales to out-of-state customers, nor has it collected use tax on its interstate mail order sales. We believe that our sales to interstate customers are generally tax-exempt due to varying state exemptions relative to the definitions of being engaged in business in particular states and the lack of current Internet taxation. While we have not been contacted by any state authorities seeking to enforce sales or use tax regulations, we cannot assure you that we will not be contacted by authorities in the future with inquiries concerning our compliance with current statutes, nor can we assure you that future statutes will not be enacted that affect the sales and use tax aspects of our business.

We may incur losses as a result of accumulating inventory.

A substantial portion of the products that we sell comes from our own inventory. We purchased these products from dealers and collectors and assume the inventory and price risks of these items until they are sold. If we are unable to resell the products that we purchase when we want or need to, or at prices sufficient to generate a profit from their resale, or if the market value of the inventory of purchased products were to decline, our revenue would likely decline.

Our planned expansion and enhancement of our websites and internet operations may not result in increased profitability.

The satisfactory performance, reliability and availability of our website and network infrastructure are and will be critical to our reputation and our ability to attract and retain customers and technical personnel and to maintain adequate customer service levels. Any system interruptions or reduced performance of our website could materially adversely affect our reputation and our ability to attract new customers and technical personnel. We are in the process of development and/or enhancement of several portions of our websites that will offer content and auctions for rare coins that may have a lower average selling price than many of the rare coins in the markets we currently serve, and in the future we plan to integrate various of our websites. Continued development of our websites will require significant resources and expense. If the planned expansion of our websites does not result in increased revenue, we may experience decreased profitability.

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.

Changes to financial accounting standards and new exchange rules could make it more expensive to issue stock options to employees, which would increase compensation costs and may cause us to change our business practices.

We prepare our financial statements to conform with generally accepted accounting principles, or GAAP, in the United States. These accounting principles are subject to interpretation by the Public Company Accounting Oversight Board, the SEC and various other bodies. A change in those policies could have a significant effect on our reported results and may affect our reporting of transactions completed before a change is announced.

We are subject to new 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.

We may incur significant legal, accounting and other expenses as a result of our required compliance with certain regulations. More specifically, the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”), as well as rules subsequently implemented by the SEC, impose various requirements on public companies. Our management and other personnel must devote a substantial amount of time to these compliance requirements. Moreover, these rules and regulations have increased our legal and financial compliance costs and make some activities more time-consuming and costly.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective internal controls for financial reporting and disclosure controls and procedures. In particular, beginning with our year ended December 31, 2007, management was required to perform system and process evaluation and testing of the effectiveness of our internal controls over financial reporting, as required by Section 404(a) of the Sarbanes-Oxley Act. Section 404(b) of the Sarbanes-Oxley Act required companies to obtain auditor’s attestation related to their assessment of the effectiveness of our internal controls over financial reporting. The compliance deadline for smaller reporting companies to comply with Section 404(b) had been extended by the SEC to annual reports covering fiscal years ended on or after June 15, 2010, or in our case for our annual report covering our year ended December 31, 2010.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Wall Street Reform Act”). Section 989G of the Wall Street Reform Act expressly exempts issuers that are neither “large accelerated filers” nor “accelerated filers” (which includes smaller reporting companies) from the requirement contained in Section 404(b) of the Sarbanes Oxley Act to provide an auditor attestation of internal control over financial reporting.

Although we are no longer required to comply with Section 404(b), we remain subject to Section 404(a) (that is, management’s report on our internal controls over financial reporting). Our testing may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses. As a result, our compliance with Section 404(a) may require that we incur substantial accounting expense and expend significant management efforts. We do not have an internal audit group, and we may need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge to ensure compliance with these regulations and/or to correct such material weaknesses. If we are not able to comply with the requirements of Section

404(a), or if we identify deficiencies in our internal controls over financial reporting, the market price of our common shares could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

The revolving credit facility with Texas Capital Bank, N.A. is collateralized by a general security interest in our assets. If we were to default under the terms of the credit facility, the lender would have the right to foreclose on our assets.

In December 2005, we entered into a revolving credit facility with Texas Capital Bank, N.A., which permits borrowings up to a maximum principal amount of \$4.5 million. Borrowings under the revolving credit facility are collateralized by a general security interest in substantially all of our assets (other than the assets of Superior). As of December 31, 2010, approximately \$4.5 million was outstanding under the term loan and revolving credit facility. If we were to default under the terms and conditions of the revolving credit facility, Texas Capital Bank would have the right to accelerate any indebtedness outstanding and foreclose on our assets in order to satisfy our indebtedness. Such a foreclosure could have a material adverse effect on our business, liquidity, results of operations and financial position.

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. In addition, our revolving credit facility with Texas Capital Bank currently restricts, and any other credit or borrowing arrangements that we may enter into may in the future restrict or limit, our ability to pay dividends to our stockholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

We own a 20,000 square foot facility at 11311 Reeder Rd, Dallas, Texas which houses retail and wholesale jewelry, bullion and rare coin trading operations and our principal executive offices. The land and buildings are subject to a mortgage maturing in August 2016, with a balance outstanding of approximately \$2,165,167 as of December 31, 2010.

Our Euless, TX location is a 2,158 square foot facility which houses retail jewelry, bullion and rare coin trading operations. Our monthly lease payments at December 31, 2010 are \$2,248 and the lease is due to expire June 30, 2015.

CGDE operates in a leased 2,367 square foot facility in Mt. Pleasant, South Carolina. The lease expires in May 2015 and requires monthly lease payments in the amount of \$5,146.

Our Superior Galleries operations are located in an approximately 9,265 square foot storefront facility located at 20011 Ventura Boulevard, Woodland Hills, California. This facility includes administrative, customer support, gallery and retail space. The lease for this facility expires March 31, 2013. The average combined monthly rental rate is \$33,064 including parking fees and rent of storage space.

We also maintain a resident agent office in Nevada at the office of our Nevada counsel, McDonald, Carano, Wilson, McClure, Bergin, Frankovitch and Hicks, 241 Ridge Street, Reno, Nevada 89505.

ITEM 3. LEGAL PROCEEDINGS.

From time to time, be involved in various claims, lawsuits, disputes with third parties, actions involving allegations of discrimination, or breach of contract actions incidental to the operation of its business. Except as set forth above, we are not currently involved in any such litigation which we believe could have a material adverse effect on our financial condition or results of operations, liquidity or cash flows.

On January 27, 2010, the Company and Stanford International Bank, LTD ("SIBL"), which prior to the closing of certain settlement agreements discussed below was a beneficial owner of a significant equity interest in DGSE, a primary lender to a wholly owned subsidiary of DGSE and subject to certain agreements with DGSE and its Chairman, entered into a Purchase and Sale Agreement and a Debt Conversion Agreement to settle DGSE's lawsuit against SIBL. On May 25, 2010, DGSE and SIBL and a third party entered in a closing agreement to finalize the settlement agreements upon the approval of the settlement by the United States District Court for the Northern District of Texas which has jurisdiction for the assets of SIBL. Upon closing of the transaction, SIBL terminated all agreements, converted all of its subsidiary's debt, interest and other expenses for 1,000 shares of DGSE common stock provided to its subsidiary, and sold 3,000,000 shares of common stock to DGSE's assignee, NTR Metals for \$3,000,000 under a Partial Assignment Agreement. Pursuant to the partial assignment of the Company's rights as a Buyer to NTR under the Company-SIBL Purchase Agreement, NTR acquired directly from SIBL 3,000,000 Shares of the Company (the "NTR Acquired Interest"). The parties agreed that the remaining portion of the SIBL Equity Interest (i.e. 377,361 Shares) be transferred as designated by the Company. SIBL cancelled 422,814 additional warrants to purchase additional shares of DGSE as part of the settlement agreement. As a result of the transaction, the Company recognized a gain of \$9,198,570 related to the cancellation of debt.

On February 26, 2010, Superior Galleries, Inc. ('Superior') entered into a settlement agreement for a lawsuit filed by its previous landlord, DBKK, LLC for \$385,000 to be paid over three years bearing interest at 8%. The Company's settlement with DBBK was a risk management decision based on an original claim in the amount of \$806,000. The lawsuit resulted from a lease transaction entered into by certain officers of Superior. As of September 30, 2010, the Company has recorded \$385,000 loss related to the settlement of this litigation in other (income) expense.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

On October 31, 2007, our Common Stock began trading on the NYSE Amex under the symbol "DGC" and is currently trading under the symbol "DGSE". Previously, our Common Stock was traded on the NASDAQ Small CAP Market under the symbol "DGSE". The following table sets forth for the period indicated, the per share high and low bid quotations as reported on NYSE Amex for our common stock. During the past three years, 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.

The Company entered into agreements to sell securities through an exempt offering to certain accredited investors in August 2010. The Company filed a Form D.) "Notice of Exempt Offering of Securities" in accordance with SEC regulations to report the offering. The private placement of units, with each unit consisting of (1) 24,286 shares of common stock and (2) \$50,000 of indebtedness of the company, evidenced by notes convertible into common stock, for a purchase price of \$100,000 per unit, generated aggregate of proceeds of \$500,000. The shares of common stock were issued in October 2010.

The following quotations reflect inter-dealer prices without retail mark-ups, mark-downs or commissions and may not reflect actual transactions. High and low bid quotations for the last two years were:

| | High | Low |
|----------------|---------|---------|
| 2010 | | |
| Fourth Quarter | \$4.840 | \$3.520 |
| Third Quarter | 4.020 | 2.410 |
| Second Quarter | 3.250 | 1.610 |
| First Quarter | 2.560 | 1.300 |
| 2009 | High | Low |
| Fourth Quarter | \$1.750 | \$1.160 |
| Third Quarter | 1.500 | 0.780 |
| Second Quarter | 1.200 | 0.760 |
| First Quarter | 1.950 | 0.760 |

On April 14, 2011, the closing sales price for our common stock was \$5.20 and there were 595 shareholders of record.

Securities authorized for issuance under equity compensation plans.

We have granted options to certain officers, directors and key employees to purchase shares of our common stock. Each option vests according to a schedule designed by our board of directors, not to exceed four years. Each option expires 180 days from the date of termination of the employee or director. The exercise price of each option is equal to the market value of our common stock on the date of grant. These option grants have been approved by security holders.

The following table summarizes options outstanding as of December 31, 2010:

| Plan Category | Number of securities to be issued upon | Weighted average exercise price of | Number of securities remaining available for |
|---------------|--|------------------------------------|--|
|---------------|--|------------------------------------|--|

| | exercise of options, warrants & rights | outstanding options, warrants & rights | future issuance under equity compensation plans |
|--|---|---|---|
| Equity compensation plans approved by security holders | 1,498,134 | \$ 2.34 | 700,000 |
| Equity compensation plans not approved by security holders | None | -- | None |
| Total | 1,498,134 | \$ 2.34 | 700,000 |

On June 27, 2006 stockholders of the Company approved the adoption of the 2006 Equity Incentive Plan (the "2006 Plan"). During the year ended December 31, 2007, there were 130,000 options granted to our non-employee directors under this plan and, as a result, there are 700,000 shares available for future grants under the 2006 Plan.

Stock Performance Table

The following table represents a comparison of the five year total return of our common stock to the NASDAQ Composite Index, the S&P 600 Small Cap Index and the S&P Retail Index for the period from January 1, 2006 to December 31, 2010. The comparison assumes \$100 was invested on December 31, 2005 and dividends, if any, were reinvested for all years ending December 31.

Comparison of Five Year Cumulative Return

| Date: | DGSE Common Stock | NASDAQ Composite Index | S&P Retail Index | S&P 600 Small Cap Index |
|-------|----------------------|------------------------------|---------------------|-------------------------------|
| 2005 | 100 | 100 | 100 | 100 |
| 2006 | 128 | 110 | 109 | 114 |
| 2007 | 260 | 120 | 111 | 113 |
| 2008 | 83 | 71 | 61 | 77 |
| 2009 | 70 | 104 | 90 | 95 |
| 2010 | 221 | 121 | 111 | 119 |

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

CAUTIONARY STATEMENT REGARDING RISKS AND UNCERTAINTIES THAT MAY AFFECT FUTURE RESULTS

Forward-Looking Statements

This Annual Report on Form 10-K, including Management's Discussion and Analysis of Financial Condition and Results of Operations, includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. 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 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 "Risk Factors" and elsewhere in this report. 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.

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. Jewelry and other inventories are valued at the lower of cost or market. Bullion is valued at the lower-of-cost-or-market (average cost).

The Company acquires a majority of its retail jewelry inventory from individuals that is pre-owned. The Company acquires the jewelry based on its own internal estimate of the fair market value of the items offered for sale considering factors such as the current spot market prices of precious metals and current demand for the items offered for sale. Because the overall market value for precious metals fluctuates, these fluctuations could have either a positive or negative impact to the profitability of the Company. The Company monitors these fluctuations to evaluate any impairment to its retail jewelry inventory. See also "Critical Accounting Estimates".

Impairment of Long-Lived and Amortized Intangible Assets. The Company performs impairment evaluations of its long-lived assets, including property, plant and equipment and intangible assets with finite lives, including the

customer base acquired in the Superior acquisition, 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, 2010.

Impairment of Goodwill and Indefinite-Lived Intangible Assets. Goodwill and indefinite-lived intangible assets are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the assets might be impaired. The Company performs its annual review at the beginning of the fourth quarter of each fiscal year.

The Company evaluates the recoverability of goodwill by estimating the future discounted cash flows of the businesses to which the goodwill relates. Estimated cash flows and related goodwill are grouped at the reporting unit level. A reporting unit is an operating segment or, under certain circumstances, a component of an operating segment that constitutes a business. When estimated future discounted cash flows are less than the carrying value of the net assets and related goodwill, an impairment test is performed to measure and recognize the amount of the impairment loss, if any. Impairment losses, limited to the carrying value of goodwill, represent the excess of the carrying amount of a reporting unit's goodwill over the implied fair value of that goodwill. In determining the estimated future cash flows, the Company considers current and projected future levels of income as well as business trends, prospects and market and economic conditions.

The Company cannot predict the occurrence of certain events that might adversely affect the carrying value of goodwill and indefinite-lived intangible assets. Such events may include, but are not limited to, the impact of the economic environment, a material negative change in relationships with significant customers, or strategic decisions made in response to economic and competitive conditions. See "Critical Accounting Estimates."

Revenue Recognition. Revenue is generated from wholesale and retail sales of rare coins, precious metals, bullion and second-hand jewelry. The recognition of revenue varies for wholesale and retail transactions and is, in large part, dependent on the type of payment arrangements made between the parties. The Company recognizes sales on an F.O.B. shipping point basis.

The Company sells rare coins to other wholesalers/dealers within its industry on credit, generally for terms of 14 to 60 days, but in no event greater than one year. The Company grants credit to new dealers based on extensive credit evaluations and for existing dealers based on established business relationships and payment histories. The Company generally does not obtain collateral with which to secure its accounts receivable when the sale is made to a dealer. The Company maintains reserves for potential credit losses based on an evaluation of specific receivables and its historical experience related to credit losses. See "Critical Accounting Estimates".

Revenues for monetary transactions (i.e., cash and receivables) with dealers are recognized when the merchandise is shipped to the related dealer.

The Company also sells rare coins to retail customers on credit, generally for terms of 30 to 60 days, but in no event greater than one year. The Company grants credit to new retail customers based on extensive credit evaluations and for existing retail customers based on established business relationships and payment histories. When a retail customer is granted credit, the Company generally collects a payment of 25% of the sales price, establishes a payment schedule for the remaining balance and holds the merchandise as collateral as security against the customer's receivable until all amounts due under the credit arrangement are paid in full. If the customer defaults in the payment of any amount when due, the Company may declare the customer's obligation in default, liquidate the collateral in a commercially reasonable manner using such proceeds to extinguish the remaining balance and disburse any amount in excess of the remaining balance to the customer.

Under this retail arrangement, revenues are recognized when the customer agrees to the terms of the credit and makes the initial payment. We have a limited-in-duration money back guaranty policy (as discussed below).

In limited circumstances, the Company exchanges merchandise for similar merchandise and/or monetary consideration with both dealers and retail customers, for which the Company recognizes revenue in accordance with FASB ASC 845-10-25, Nonmonetary Transactions. When the Company exchanges merchandise for similar merchandise and there is no monetary component to the exchange, the Company does 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 the Company exchanges merchandise for similar

merchandise and there is a monetary component to the exchange, the Company recognizes revenue to the extent of monetary assets received and determine 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 has a return policy (money-back guarantee). The policy covers retail transactions involving graded rare coins only. Customers may return graded rare coins purchased within 7 days of the receipt of the rare coins for a full refund as long as the rare coins are returned in exactly the same condition as they were delivered. In the case of rare coin sales on account, customers may cancel the sale within 7 days of making a commitment to purchase the rare coins. The receipt of a deposit and a signed purchase order evidences the commitment. Any customer may return a coin if they can demonstrate that the coin is not authentic, or there was an error in the description of a graded coin.

Revenues from the sale of consigned goods are recognized as commission income on such sale if the Company is acting as an agent for the consignor. If in the process of selling consigned goods, the Company makes an irrevocable payment to a consignor for the full amount due on the consignment and the corresponding receivable from the buyer(s) has not been collected by the Company at that payment date, the Company records that payment as a purchase and the sale of the consigned good(s) to the buyer as revenue as the Company has assumed all collection risk.

Allowance for Doubtful Accounts. The allowance for doubtful accounts requires management to estimate a customer's ability to satisfy its obligations. The estimate of the allowance for doubtful accounts is particularly critical in the Company's wholesale coin segment where a significant amount of the Company's trade receivables are recorded. The Company evaluates the collectability of receivables based on a combination of factors. In circumstances where the Company is aware of a specific customer's inability to meet its financial obligations, a specific reserve is recorded against amounts due to reduce the net recognized receivable to the amount reasonably expected to be collected. Additional reserves are established based upon the Company's perception of the quality of the current receivables, including the length of time the receivables are past due, past experience of collectability and underlying economic conditions. If the financial condition of the Company's customers were to deteriorate resulting in an impairment of their ability to make payments, additional reserves would be required.

Impairment of Goodwill and Indefinite-Lived Intangible Assets. In evaluating the recoverability of goodwill, it is necessary to estimate the fair value of the reporting units. The estimate of fair value of intangible assets is generally determined on the basis of discounted future cash flows. The estimate of fair value of the reporting units is generally determined on the basis of discounted future cash flows supplemented by the market approach. In estimating the fair value, management must make assumptions and projections regarding such items as future cash flows, future revenues, future earnings and other factors. The assumptions used in the estimate of fair value are generally consistent with the past performance of each reporting unit and are also consistent with the projections and assumptions that are used in current operating plans. Such assumptions are subject to change as a result of changing economic and competitive conditions. The rate used to discount estimated cash flows is a rate corresponding to the Company's cost of capital, adjusted for risk where appropriate, and is dependent upon interest rates at a point in time. There are inherent uncertainties related to these factors and management's judgment in applying them to the analysis of goodwill impairment. It is possible that assumptions underlying the impairment analysis will change in such a manner to cause further impairment of goodwill, which could have a material impact on the Company's results of operations.

During the 4th quarter of 2008, given the sustained decline in the price of the Company's Common Stock during 2008 when its share price approximated book value, continued operating losses within the auction segment, as well as further deterioration in credit markets and the macro-economic environment, the Company determined that the appropriate triggers had been reached to perform additional impairment testing on goodwill and its indefinite-lived intangible assets.

To derive the fair value of its reporting units, the Company performed extensive valuation analyses, utilizing both income and market approaches. Under the income approach, the Company determined fair value based on estimated future cash flows discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn. Estimated future cash

flows were based on the Company's internal projection models, industry projections and other assumptions deemed reasonable by management. For the impairment analysis, the Company used a weighted-average cost of capital of 20% and a terminal growth rate of 3%. Under the market approach, the Company evaluated the fair value of its reporting units based on the overall actual market capitalization trend of the Company as compared to the net book value of the Company. Changes in estimates or the application of alternative assumptions could produce significantly different results.

As a result of this analysis, \$8,185,443 of goodwill was written off during the 4th quarter of fiscal 2008 relating to the goodwill resulting from the Superior Galleries acquisition. The evaluation of other long-lived intangible assets relating to the Superior Galleries acquisition were not written off due to new business generated from the Superior Galleries, Inc. through the establishment of two new entities, Superior Estate Buyers and Superior Precious Metals, which attracted approximately \$9.8 million and \$1.8 million, respectively, in revenues in their first full year of operations in 2008. These charges were driven by current projections and valuation assumptions that reflected the Company's belief that the Superior Galleries, Inc. wholesale auction and coin segments would not sustain adequate growth and profitability to generate cash flow, especially in the current downturn in the economy.

The analysis of the wholesale watch sales division resulting from the acquisition of Fairchild with a carrying value of goodwill of \$837,117 resulted in no impairment as its estimated future discounted cash flows significantly exceeded the net assets and related goodwill.

Income Taxes. Income taxes are estimated for each jurisdiction in which we operate. This involves assessing the current tax exposure together with temporary differences resulting from differing treatment of items for tax and financial statement accounting purposes. Any resulting deferred tax assets are evaluated for recoverability based on estimated future taxable income. To the extent that recovery is deemed not likely, a valuation allowance is recorded. See "Critical Accounting Estimates".

The Company records deferred income tax assets and liabilities for differences between the book basis and tax basis of the related net assets. The Company records a valuation allowance, when appropriate, to adjust deferred tax asset balances to the amount management expects to realize. Management considers, as applicable, the amount of taxable income available in carryback years, future taxable income and potential tax planning strategies in assessing the need for a valuation allowance. The Company has recorded the net present value of the future expected benefits of the net operating loss (NOL) carryforward related to its subsidiary Superior Galleries, Inc. due to IRS loss limitation rules. The Company will require future taxable income to fully realize the net deferred tax asset resulting from the NOL.

Interest costs and penalties related to income taxes are classified as interest expense and general and administrative costs, respectively, in the Company's consolidated financial statements. For the years ended December 31, 2010 and 2009, the Company did not recognize any interest or penalty expense related to income taxes. It is determined not to be reasonably likely for the amounts of unrecognized tax benefits to significantly increase or decrease within the next 12 months. The Company is currently subject to a three year statute of limitations by major tax jurisdictions. The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction.

Results of Operations

Comparison of the Years ended December 31, 2010 and 2009

Revenues decreased by \$2,802,000 or 3.3%, in 2010. This decrease was primarily the result of a \$3,082,000, or 22.0% decrease in rare coin and jewelry sales. The decreases in rare coin and jewelry sales were due to a sluggish retail environment where there appears to be less interest in rare coins as compared to bullion related products. Cost of goods sold as a percentage of sales increased slightly to 85.7% in 2010 from 85.6% in 2009 and gross margins decreased slightly to 14.3% in 2010 from 14.4% in 2009. This decrease was due to an increase in precious metal sales which have a lower margin than jewelry and rare coins revenues.

Selling, general and administrative expenses decreased \$343,000 or 3.2% during the year. This decrease was primarily due to reduced advertising expenses. Depreciation and amortization increased by \$84,000 during 2010 due to new assets being placed into service and the amortization of deferred financing costs associated with the renewal of our credit facility.

In May 2010, the Company undertook a complete accounting and financial reporting system conversion, replacing an older accounting system with a newer system that provides better reporting, functionality, and improved controls. Management determined the conversion requirements and the conversion process created multiple process and reporting errors in their general ledger and financial reporting modules inclusive of multiple book to physical and other inventory reconciling items, under reporting of customer deposits, and various unreconcilable errors identified when the Company performed its annual book to physical count adjustments at year end. The sum total of adjustments required to correct the effected account balances was \$3,771,702 which was reflected as an adjustment to inventory impairment expense in the second quarter. These adjustments are reflected net of tax effects in our second quarter results that have been restated in the quarterly comparison in Note 19 of our financial statements. See also management's discussion of the internal control deficiency which precipitated this reporting problem.

Other income during 2010 was a result of the transaction concluded with the Receiver in the matter of Stanford International Bank LTD as discussed in Legal Proceedings above.

In November 2008 we decided to discontinue the live auction segment of the Company's business activities. This decision was based on the substantial losses being incurred by this operating segment during 2008. As a result, the operating results of the auction segment have been reclassified to discontinued operations for 2009 and 2008. During 2008 the auction segment incurred a pretax loss of \$3,227,151 which includes \$848,000 related to the impairment of goodwill associated with the Superior acquisition in May 2007. During 2009 the auction segment incurred a pretax loss of \$710,056.

In June 2009 we sold the assets of National Jewelry Exchange, Inc. (our two pawn shops to an unrelated third party for cash in the amount of \$ 1,324,450. The proceeds were used to retire \$400,000 of our bank debt and the balance was used for working capital. As a result, the operations results of this segment have been classified as discontinued operations.

In December 2009, the Company decided to discontinue operations of Superior Estate Buyers. This decision was based on the substantial losses being incurred by this component during 2009. As a result, the operating results of this segment have been reclassified to discontinued operations for 2009 and 2008. During 2009, Superior Estate Buyers incurred a pretax loss of \$87,120.

As a result, operating results from these business segments have been reclassified to discontinued operations for all periods presented

Income tax expense is directly affected by the levels of pretax income and non-deductible permanent differences. The Company's effective tax rate was (16.0%) and 31.5% for the year ended December 31, 2010 and 2009, respectively.

Comparison of the Years ended December 31, 2009 and 2008

Revenues decreased by \$15,854,000 or 15.6%, in 2009. This decrease was primarily the result of a \$2,652,000 or 5.8% decrease in the sale of precious metals products, a \$11,958,000 or 32.6% decrease in retail jewelry sales and a \$1,890,000, or 11.8% decrease in rare coin sales. The decreases in precious metals and rare coin sales were due to a reduced availability of precious metal products and the reduction of activity at Superior as a result of the discontinuance of the auction business segment. The decrease in jewelry sales was due to the sluggish retail environment. In addition, the discontinuance of the auction business segment and the sale of our pawn shops had an indirect effect on our retail sales. Cost of goods sold as a percentage of sales decreased to 85.6% in 2009 from 87.7% in 2008 and gross margins increased to 14.4% in 2009 from 12.3% in 2008. This increase was due to the decrease in precious metal sales which have a lower margin than jewelry and rare coins revenues.

Selling, general and administrative expenses increased \$2,446,000 or 29.43% during the year. This increase was due to higher advertising and payroll related cost. Depreciation and amortization increased by \$14,066 during 2009 due to new assets being placed into service. The decrease in interest expense was due to the reduction in debt outstanding and the non payment of the Superior related debt to Stanford International Bank resulting from the bank's default under the loan agreement. Loss from discontinued operations was the result of the discontinuing the operations of our live

During 2008, the Company reflected \$8,185,443 of goodwill relating to the acquisition of Superior Galleries. Inc. in May 2007. Under SFAS No. 142, the Company is required to undertake an annual impairment test at its year end or when there is a triggering event. In addition to the annual impairment review, there were a number of triggering events in the fourth quarter due to the significant operating losses of Superior and the impact of the economic downturn on Superior's operations and the decline in the Company's share price resulting in a substantial discount of the market capitalization to tangible net asset value. An evaluation of the recorded goodwill was undertaken, which considered two methodologies to determine the fair-value of the entity:

- A market capitalization approach, which measure market capitalization at the measurement date.
- A discounted cash flow approach, which entails determining fair value using a discounted cash flow methodology. This method requires significant judgment to estimate the future cash flow and to determine the appropriate discount rates, growth rates, and other assumptions.

Each of these the Company believes has merit, and resulted in the determination that goodwill was impaired. Accordingly, to reflect the impairment, the Company recorded a non-cash charge of \$8,185,443, which eliminated the value of the goodwill related to Superior.

In November 2008 we decided to discontinue the live auction segment of the Company's business activities. This decision was based on the substantial losses being incurred by this operating segment during 2008. As a result, the operating results of the auction segment have been reclassified to discontinued operations for 2009 and 2008. During 2008 the auction segment incurred a pretax loss of \$3,227,151 which includes \$848,000 related to the impairment of goodwill associated with the Superior acquisition in May 2007. During 2009 the auction segment incurred a pretax loss of \$710,056.

In June 2009 we sold the assets of National Jewelry Exchange, Inc. (our two pawn shops to an unrelated third party for cash in the amount of \$ 1,324,450. The proceeds were used to retire \$400,000 of our bank debt and the balance was used for working capital. As a result, the operations results of this segment have been classified as discontinued operations.

In December 2009, the Company decided to discontinue operations of Superior Estate Buyers. This decision was based on the substantial losses being incurred by this component during 2009. As a result, the operating results of this segment have been reclassified to discontinued operations for 2009 and 2008. During 2009, Superior Estate Buyers incurred a pretax loss of \$87,120.

As a result, operating results from these business segments have been reclassified to discontinued operations for all periods presented

Income tax expense is directly affected by the levels of pretax income and non-deductible permanent differences related to the goodwill impairment. The Company's effective tax rate was 31.5% and 23.1% for the year ended December 31, 2009 and 2008, respectively.

Liquidity and Capital Resources

During the three years ended December 31, 2010 cash flows from operating activities totaled (\$1,798,418), \$1,317,816, and (\$1,013,482), respectively. Cash used in operating activities during 2010 was primarily the result of inventory purchases (\$3,052,133) offset by an increase customer deposits, \$335,859, an increase in accounts payable and accrued expenses, \$86,438 and a decrease in prepaid expenses, \$390,933. The increase in deposits was primarily the result of a 29% price increase in gold products and a significant increase in the demand for precious metal products.

During the three years ended December 31, 2010 cash flows from investing activities totaled (\$73,141) \$851,204, and (\$1,222,178). The cash used in 2010 was the result of the purchase and installation of a new accounting system. The cash provided in 2009 was primarily due to the proceeds from the sale discontinued operations. The uses of cash in 2008 were primarily the result of building improvements (\$1,130,602) during 2008.

During the three years ended December 31, 2010 cash flows from financing activities totaled \$1,296,303, (\$942,389) and \$1,919,205. These cash flows were the result of borrowings and repayments of loans. In 2010, we also received \$500,000 in proceeds from the issuance of common stock and convertible debt. The Company entered into agreements to sell securities through an exempt offering to certain accredited investors in August 2010. The Company filed a Form D.) "Notice of Exempt Offering of Securities" in accordance with SEC regulations to report the offering. The private placement of units, with each unit consisting of (1) 24,286 shares of common stock and (2) \$50,000 of indebtedness of the company, evidenced by notes convertible into common stock, for a purchase price of \$100,000 per unit, generated aggregate of proceeds of \$500,000. The shares of common stock were issued in October 2010.

We expect capital expenditures to total approximately \$150,000 during the next twelve months. It is anticipated that these expenditures will be funded from working capital. As of December 31, 2010 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 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. Any significant increase in wholesale accounts receivable will be financed under a new bank credit facility or from short-term loans from individuals.

Our ability to finance our operations and working capital needs are dependent upon management's ability to negotiate extended terms or refinance its debt. 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.

From time to time, we have adjusted our 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 in order to meet unforeseen working capital requirements.

On May 27, 2010, the Company announced that Texas Capital Bank has agreed to renew and increase the size of its current credit facility. The new facility is composed of a \$3.5 million revolving note and a \$1.0 million term loan provided immediate availability to finance current operations. The agreement was finalized and funded June 2, 2010. Borrowings under the revolving credit facility are collateralized by a general security interest in substantially all of our assets (other than the assets of Superior). As of December 31, 2010, approximately \$4.5 million was outstanding under the term loan and revolving credit facility. If we were to default under the terms and conditions of

the revolving credit facility, Texas Capital Bank would have the right to accelerate any indebtedness outstanding and foreclose on our assets in order to satisfy our indebtedness. Such a foreclosure could have a material adverse effect on our business, liquidity, results of operations and financial position. This credit facility matures in June 2011. As of December 31, 2010 the Company was not in full compliance of the loan covenants, however, management believes the non-compliance was cured as of March 31, 2011.

The covenants associated with our credit facility with Texas Capital Bank, N.A., excluding Superior Galleries, are as follows:

| As of December 31, 2010 | Requirement | Actual calculation |
|---|---------------------------|--------------------|
| Minimum tangible net worth | 17,750,000 | 15,217,255 |
| Maximum total liabilities to tangible net worth | Not to exceed .75 | .77 |
| Minimum debt service coverage | Must be greater than 1.40 | 1.47 |

On October 17, 2007, we closed on the purchase of our new headquarters location. As a result, we assumed a new loan with a remaining principal balance of \$2,323,484 and an interest rate of 6.70%. The loan has required monthly payments of \$20,192 with the final payment due on August 1, 2016.

Upon the consummation of our acquisition of Superior, and after the exchange by Stanford of \$8.4 million of Superior debt for shares of Superior common stock, Superior amended and restated its credit facility with Stanford. The amended and restated commercial loan and security agreement, which we refer to as the loan agreement, decreased the available credit line from \$19.89 million to \$11.5 million, reflecting the \$8.4 million debt exchange. Interest on the outstanding principal balance will continue to accrue at the prime rate, as reported in the Wall Street Journal or, during an event of default, at a rate 5% greater than the prime rate as so reported.

On January 27, 2010, DGSE Companies, Inc. (“DGSE”) and Stanford International Bank, LTD (“SIBL”), which is the beneficial owner of a significant equity interest in DGSE, a primary lender to a wholly owned subsidiary of DGSE and subject to certain agreements with DGSE and its Chairman, entered into definitive agreements whereby SIBL will terminate all agreements, will convert all of its debt, interest and other expenses and will sell all of its equity interests including common stock and warrants to DGSE or its assignees.

On January 27, 2010, DGSE and SIBL, which prior to the closing of certain settlement agreements discussed below was a beneficial owner of a significant equity interest in DGSE, a primary lender to a wholly owned subsidiary of DGSE and subject to certain agreements with DGSE and its Chairman, entered into a Purchase and Sale Agreement and a Debt Conversion Agreement to settle DGSE’s lawsuit against SIBL. On May 25, 2010, DGSE and SIBL and a third party entered in a closing agreement to finalize the settlement agreements upon the approval of the settlement by the United States District Court for the Northern District of Texas which has jurisdiction for the assets of SIBL.

Upon closing of the transaction, SIBL terminated all agreements, converted all of its subsidiary's debt, interest and other expenses for 1,000 shares of DGSE common stock provided to its subsidiary and sold 3,000,000 shares of common stock to DGSE’s assignee, NTR Metals for \$3,000,000 under a Partial Assignment Agreement. Pursuant to the partial assignment of the Company’s rights as a Buyer to NTR under the Company-SIBL Purchase Agreement, NTR acquired directly from SIBL 3,000,000 Shares of the Company (the “NTR Acquired Interest”). The parties agreed that the remaining portion of the SIBL Equity Interest (i.e. 377,361 Shares) be transferred as designated by the Company. SIBL cancelled 422,814 additional warrants to purchase additional shares of DGSE as part of the settlement agreement. As a result of the transaction, the Company recognized a gain of \$9,198,570 related to the cancellation of debt.

| Contractual Cash Obligations | Payments due by period | | | | |
|-----------------------------------|------------------------|-------------|-------------|-------------|------------|
| | Total | 2011 | 2012 - 2013 | 2014 - 2015 | Thereafter |
| Notes payable | \$3,552,342 | \$3,552,342 | \$-- | \$-- | \$-- |
| Long-term debt and capital leases | 3,589,817 | 420,170 | 1,038,321 | 536,858 | 1,594,468 |
| Operating Leases | 1,585,005 | 616,462 | 845,741 | 122,802 | -- |

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| | | | | | |
|-------|-------------|-------------|-------------|-----------|-------------|
| Total | \$8,727,164 | \$4,588,974 | \$1,844,062 | \$659,660 | \$1,594,468 |
|-------|-------------|-------------|-------------|-----------|-------------|

In addition, we estimate that we will pay approximately \$385,000 in interest during the next twelve months.

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Off-Balance Sheet Arrangements.

We have no 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 stockholders.

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

Market Risk

The following discussion about our market risk disclosures involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. We are exposed to market risk related to changes in interest rates and precious metal values. We also are exposed to regulatory risk in relation to our pawn loans. We do not use derivative financial instruments.

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

ITEM 8. FINANCIAL STATEMENTS.

- (a) Financial Statements (see pages 32 - F-22 of this report).

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act) 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, as of December 31, 2010, these disclosure controls and procedures were ineffective to ensure that all information required to be disclosed by us in the reports that we file or submit under the Exchange Act is: (i) recorded, processed, summarized and reported, within the time periods specified in the Commission's rule and forms; and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There have been no material changes in internal control over financial reporting that occurred during the fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010 using the criteria set forth by the Committee of Sponsoring Organizations of the Tread way Commission in Internal Control — Integrated Framework. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. In its assessment of the effectiveness of internal control over financial reporting as of December 31, 2010, the Company determined that there were control deficiencies that constituted material weaknesses in the following area:

The Company did not maintain effective controls over certain account reconciliations. Specifically, account reconciliations associated with inventory, depository accounts and intercompany accounts lacked appropriate supporting documentation and were not reviewed in a satisfactory manner. This material weakness contributed to the restatement of the current year's quarterly data contained in Note 19 in our financial statements included in this Annual Report on Form 10-K.

As a result of these material weaknesses, management concluded that the Company did not maintain effective internal control over financial reporting and safeguarding of assets as of December 31, 2010.

The Company's management has taken, or is in the process of taking, various actions that are intended to remediate these material weaknesses. The Company's Chief Executive Officer, Chief Financial Officer and its Controller are overseeing the implementation of these remediation efforts, including:

- The hiring of an Inventory Control manager and related personnel.
- A review of the Company's internal controls, policies and procedures and organization structure relating to the areas where material weaknesses were identified and report to the audit committee.
- The hiring of additional personnel and the retraining of existing personnel within its finance organization.
 - Increased oversight by the audit committee in both financial reporting and internal controls.

This Annual Report on Form 10-K does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report on Form 10-K.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or internal controls over financial reporting will 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 company 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.

Changes in Internal Control over Financial Reporting

For the quarter ended December 31, 2010, there have been certain changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting as discussed herein.

ITEM 9B. OTHER INFORMATION.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.(*)

Item 11. Executive Compensation.(*)

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.(*)

Item 13. Certain Relationships and Related Transactions, and Director Independence.(*)

Item 14. Principal Accountant Fees and Services.(*)

*The information required by Items 10, 11, 12, 13 and 14 is or will be set forth in the definitive proxy statement relating to the 2011 Annual Meeting of Stockholders of DGSE Companies, Inc., which is to be filed with the SEC pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended. This definitive proxy statement relates to a meeting of stockholders involving the election of directors and the portions therefrom required to be set forth in this Form 10-K by Items 10, 11, 12, 13 and 14 are incorporated herein by reference pursuant to General Instruction G(3) to Form 10-K.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

| (a) Exhibits | | | | | | |
|--------------|---|--------------|---------------------------|--------|---------------------|-------------|
| Exhibit No. | Description | Filed Herein | Incorporated by Reference | Form | Date Filed with SEC | Exhibit No. |
| 2.1 | Amended and Restated Agreement and Plan of Merger and Reorganization, dated as of January 6, 2007 | | × | 8-K | January 9, 2007 | 2.1 |
| 2.2 | Limited Joinder Agreement, dated as of January 6, 2007 | | × | 8-K | January 9, 2007 | 2.9 |
| 3.1 | Articles of Incorporation dated September 17, 1965 | | × | 8-A12G | June 23, 1999 | 3.1 |
| 3.2 | Certificate of Amendment to Articles of Incorporation, dated October 14, 1981 | | × | 8-A12G | June 23, 1999 | 3.2 |
| 3.3 | Certificate of Resolution, dated October 14, 1981 | | × | 8-A12G | June 23, 1999 | 3.3 |
| 3.4 | Certificate of Amendment to Articles of Incorporation , dated July 15, 1986 | | × | 8-A12G | June 23, 1999 | 3.4 |
| 3.5 | Certificate of Amendment to Articles of Incorporation, dated August 23, 1998 | | × | 8-A12G | June 23, 1999 | 3.5 |
| 3.6 | Certificate of Amendment to Articles of Incorporation, dated June 26, 1992 | | × | 8-A12G | June 23, 1999 | 3.6 |
| 3.7 | Certificate of Amendment to Articles of Incorporation, dated June 26, 2001 | | × | 8-K | July 3, 2001 | 1.0 |
| 3.8 | Certificate of Amendment to Articles of Incorporation, dated May 22, 2007 | | x | 8-K | May 31, 2007 | 3.1 |
| 3.9 | | | × | 8-A12G | June 23, 1999 | 3.7 |

By-laws, dated March 2,
1992

| | | | | | |
|-----|--------------------------------------|---|-----|--------------------|-----|
| 4.1 | Specimen Common Stock Certificate | × | S-4 | January 6, 2007 | 4.1 |
|-----|--------------------------------------|---|-----|--------------------|-----|

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| | | | | | |
|------|--|---|--------|-----------------|------|
| 10.1 | Renewal, Extension And Modification Agreement dated January 28, 1994, by and among DGSE Corporation and Michael E. Hall And Marian E. Hall | × | 10-KSB | March 1995 | 10.2 |
| 10.2 | Lease Agreement dated June 2, 2000 by and between SND Properties and Charleston Gold and Diamond Exchange, Inc. | × | 10-KSB | March 29, 2001 | 10.1 |
| 10.3 | Lease agreement dated October 5, 2004 by and between Beltline Denton Road Associates and Dallas Gold & Silver Exchange | × | 10-K | April 15, 2005 | 10.2 |
| 10.4 | Lease agreement dated December 1, 2004 by and between Stone Lewis Properties and Dallas Gold & Silver Exchange | × | 10-K | April 15, 2005 | 10.3 |
| 10.5 | Lease agreement dated November 18, 2004 by and between Hinkle Income Properties LLC and American Pay Day Centers, Inc. | × | 10-K | April 15, 2005 | 10.4 |
| 10.6 | Lease Agreement dated January 17, 2005 by and between Belle-Hall Development Phase III Limited Partnership and DGSE Companies, Inc. | × | S-4 | January 6, 2007 | 10.6 |
| 10.7 | Sale agreement dated executed July 5, 2007 by and between DGSE Companies, Inc. and Texas Department of Transportation | × | 8-K | July 11, 2007 | 10.1 |
| 10.8 | Purchase agreement dated July 5, 2007 by and between DGSE Companies, Inc. and | × | 8-K | July 11, 2007 | 10.2 |

11311 Reeder Road
Holdings, LP

| | | | | | |
|------|--|---|-------|-----------------|------|
| 10.9 | Loan Agreement, dated as of December 22, 2005, between DGSE Companies, Inc. and Texas Capital Bank, N.A. | × | 8-K/A | August 17, 2006 | 10.1 |
|------|--|---|-------|-----------------|------|

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| | | | | | |
|-------|--|---|-----|-----------------|------|
| 10.10 | Third Amendment to Loan Agreement, dated as of May 10, 2007, by and between DGSE Companies, Inc. and Texas Capital Bank, N.A. | × | 8-K | May 9, 2007 | 3.0 |
| 10.11 | Support Agreement, DGSE stockholders, dated as of January 6, 2007 | × | 8-K | January 9, 2007 | 99.1 |
| 10.12 | Securities Exchange Agreement, dated as of January 6, 2007 | × | 8-K | January 9, 2007 | 99.2 |
| 10.13 | Warrant to DiGenova, issued January 6, 2007 | × | 8-K | January 9, 2007 | 99.3 |
| 10.14 | Support Agreement, Superior stockholders, dated as of January 6, 2007 | × | 8-K | January 9, 2007 | 99.5 |
| 10.15 | Asset purchase agreement, dated May 9, 2007, by and between DGSE Companies, Inc. and Eules Gold & Silver, Inc. | × | 8-K | May 9, 2007 | 1.0 |
| 10.16 | Subordinated Promissory Note dated May 9, 2007 | × | 8-K | May 9, 2007 | 2.0 |
| 10.17 | Registration Rights Agreement with Stanford International Bank Ltd., dated as of May 30, 2007 | × | 8-K | May 31, 2007 | 99.1 |
| 10.18 | Corporate Governance Agreement with Dr. L.S. Smith and Stanford International Bank Ltd., dated as of May 30, 2007 | × | 8-K | May 31, 2007 | 99.2 |
| 10.19 | Escrow Agreement with American Stock Transfer & Trust Company and Stanford International Bank Ltd., as stockholder agent, dated as of May 30, 2007 | × | 8-K | May 31, 2007 | 99.3 |

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| | | | | | |
|-------|--|---|-----|--------------|------|
| 10.20 | Form of Warrants | × | 8-K | May 31, 2007 | 99.4 |
| 10.21 | Amended and Restated Commercial Loan and Security Agreement, by and between Superior Galleries Inc. and Stanford International Bank Ltd., dated as of May 30, 2007 | × | 8-K | May 31, 2007 | 99.5 |

| | | | | | |
|-------|--|---|-----|--------------|------|
| 10.22 | Employment Agreement with L.S. Smith, dated as of May 30, 2007 | × | 8-K | May 31, 2007 | 99.6 |
| 10.23 | Employment Agreement with William H. Oyster, dated as of May 30, 2007 | × | 8-K | May 31, 2007 | 99.7 |
| 10.24 | Employment Agreement with John Benson, dated as of May 30, 2007 | × | 8-K | May 31, 2007 | 99.8 |
| 10.25 | Eighth Amendment to Loan Agreement by and between DGSE Companies, Inc. and Tezas Capital Bank, NA | × | 8-K | June 3, 2010 | 99.2 |
| 31.1 | 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 Dr. L.S. Smith | × | | | |
| 31.2 | 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 Benson | × | | | |
| 32.1 | Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Dr. L.S. Smith | × | | | |
| 32.2 | Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by John Benson | × | | | |

(b) Reports on Form 8-K :

None.

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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/ L. S. Smith Dated: April
14, 2011
L. S. Smith
Chairman of the Board,
Chief Executive Officer and
Secretary

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.

DGSE Companies, Inc.

By: /s/ L. S. Smith Dated: April
14, 2011
L. S. Smith
Chairman of the Board,
Chief Executive Officer and
Secretary

By: /s/ W. H. Oyster Dated: April
14, 2011
W. H. Oyster
Director, President and
Chief Operating Officer

By: /s/ John Benson Dated: April
14, 2011
John Benson
Chief Financial Officer
(Principal Accounting Officer)

By: /s/ William P. Cordeiro Dated: April
14, 2011
Director

By: /s/ Craig Allan-Lee Dated: April
14, 2011

Director

By: /s/ David Rector

Dated: April
14, 2011

Director

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of DSGE Companies, Inc. and its subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for the years ended December 31, 2010, 2009, and 2008. These consolidated 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 conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We have not been engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2010 and 2009, and the consolidated results of operations and its cash flows for the years ended December 31, 2010, 2009, and 2008 in conformity with accounting principles generally accepted in the United States of America.

/s/ Cornwell Jackson
Plano, Texas
April 15, 2011

DGSE COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

| | December 31, | |
|---|---------------|---------------|
| | 2010 | 2009 |
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 871,468 | \$ 1,446,724 |
| Trade receivables | 793,869 | 649,310 |
| Inventories | 17,046,716 | 17,766,285 |
| Prepaid expenses | 416,376 | 807,298 |
| Prepaid federal income tax | 319,772 | 319,772 |
| Total current assets | 19,448,201 | 20,989,389 |
| Marketable securities – available for sale | 7,500 | 45,000 |
| Property and equipment, net | 4,466,517 | 4,713,142 |
| Deferred income taxes | 2,844,511 | 2,050,775 |
| Goodwill | 837,117 | 837,117 |
| Intangible assets, net | 2,435,339 | 2,464,006 |
| Other assets | 220,949 | 260,904 |
| Non-current assets of discontinued operations | — | 295,617 |
| | \$ 30,260,134 | \$ 31,655,950 |
| LIABILITIES | | |
| Current Liabilities: | | |
| Notes payable | \$ 52,455 | \$ 48,569 |
| Current maturities of long-term debt | 420,170 | 310,714 |
| Line of credit | 3,499,887 | 3,195,000 |
| Accounts payable – trade | 1,791,451 | 1,472,663 |
| Accrued expenses | 260,361 | 492,710 |
| Customer deposits | 2,428,452 | 2,092,593 |
| Total current liabilities | 8,452,776 | 7,612,249 |
| Long-term debt, less current maturities | 3,169,647 | 11,605,143 |
| Convertible debt, net of debt discount | 148,000 | — |
| | 11,770,423 | 19,217,392 |
| STOCKHOLDERS' EQUITY | | |
| Common stock, \$.01 par value; 30,000,000 shares authorized; 9,986,065 and 9,863,635 shares issued and outstanding at the end of each period in 2010 and 2009 | 99,861 | 98,637 |
| Additional paid-in capital | 19,084,646 | 18,698,091 |
| Accumulated other comprehensive loss | — | — |
| Retained deficit | (694,796) | (6,358,170) |
| | 18,489,711 | 12,438,558 |
| | \$ 30,260,134 | \$ 31,655,950 |

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

| | Years ended December 31, | | |
|--|--------------------------|---------------|----------------|
| | 2010 | 2009 | 2008 |
| Revenue: | | | |
| Sales | \$ 82,567,921 | \$ 85,369,679 | \$ 101,224,082 |
| Costs and expenses: | | | |
| Cost of goods sold | 70,769,750 | 73,105,758 | 88,802,032 |
| Inventory impairment | 3,771,702 | — | — |
| Selling, general and administrative expenses | 11,096,407 | 10,753,717 | 8,307,924 |
| Depreciation and amortization | 494,911 | 410,838 | 396,772 |
| Impairment of goodwill | — | — | 7,337,443 |
| | 86,132,770 | 84,270,313 | 104,844,171 |
| Operating income (loss) | (3,564,849) | 1,099,366 | (3,620,089) |
| Other (income) expense: | | | |
| Other income | (18,301) | (3,813) | 87,694 |
| Interest expense | 383,994 | 401,105 | 902,897 |
| Gain on debt settlement | (9,198,570) | — | — |
| Loss on legal settlement | 385,000 | — | — |
| Earnings before income taxes | 4,883,028 | 702,074 | (4,610,680) |
| Income tax expense (benefit) | (780,346) | 221,457 | 1,069,351 |
| Net earnings (loss) from continuing operations | 5,663,374 | 480,617 | (5,680,031) |
| Discontinued operations: | | | |
| Loss (Gain) from discontinued operations (less applicable income tax benefit (expense) of \$0, \$3,526, and \$1,118,485, respectively) | — | 803,848 | 2,171,176 |
| Loss (Gain) on disposal of discontinued operations (less applicable income tax benefit (expense) of \$0, (\$4,913), and \$0, respectively) | — | (9,537) | — |
| Net earnings (loss) | \$ 5,663,374 | \$ (313,694) | \$ (7,851,207) |
| Earnings per common share | | | |
| Basic | | | |
| From continuing operations | \$.57 | \$.05 | \$ (.59) |
| From discontinued operations | — | (.08) | (.22) |
| Net earnings per common share | \$.57 | \$ (.03) | \$ (.81) |
| Diluted | | | |
| From continuing operations | \$.55 | \$.05 | \$ (.59) |
| From discontinued operations | — | (.08) | (.22) |
| Net earnings per common share | \$.55 | \$ (.03) | \$ (.81) |

| | | | |
|---|------------|-----------|-----------|
| Weighted average number of common shares: | | | |
| Basic | 9,894,243 | 9,838,735 | 9,708,045 |
| Diluted | 10,355,531 | 9,838,735 | 9,708,045 |

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

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DGSE COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31,

| | Common Stock | | Additional Paid-in Income (Loss) | Retained Earnings (Accumulated Deficit) | Comprehensive Income (Loss) | Accumulated Other Comprehensive Income (Loss) | Total Stockholder's Equity |
|--|--------------|-----------|---|--|-----------------------------------|---|----------------------------------|
| | Shares | Amount | | | | | |
| Balance at January 1, 2008 | 9,490,357 | \$ 94,904 | \$ 18,473,234 | \$ 1,806,731 | | \$ (97,288) | \$ 20,277,581 |
| Net loss | | | | (7,851,207) | \$ [(7,851,207)] | | (7,851,207) |
| Other comprehensive income, net of tax: | | | | | | | |
| Impairment of marketable securities | | | | | 97,288 | 97,288 | 97,288 |
| Comprehensive income | | | | | \$ 7,753,919 ⁽¹⁾ | | |
| Stock issued in Heritage settlement | 8,372 | 83 | 49,916 | | | | 49,999 |
| Conversion of warrants | 334,906 | 3,350 | (17,580) | | | | (14,230) |
| Stock based compensation | | | 36,092 | | | | 36,092 |
| Balance at December 31, 2008 | 9,833,635 | \$ 98,337 | \$ 18,541,662 | \$ (6,044,476) | | \$ — | \$ 12,595,523 |
| Net loss | | | | (313,694) | | | \$ (313,694) |
| Stock issued in exchange for rent concession | 30,000 | 300 | 71,700 | | | | 72,000 |
| Stock based compensation | | | 84,729 | | | | 84,729 |
| Balance at December 31, 2009 | 9,863,635 | \$ 98,637 | \$ 18,698,091 | \$ (6,358,170) | | \$ — | \$ 12,438,558 |
| Net income | | | | 5,663,374 | | | 5,663,374 |
| Stock option expense | | | 35,768 | | | | 35,768 |
| Stock issued in connection with | 1,000 | 10 | — | | | | 10 |

| | | | | | | |
|---|-----------|-----------|---------------|------------|----|----------------|
| Stanford debt settlement | | | | | | |
| Stock issued in connection with private placement | 121,430 | 1,214 | 350,787 | | | 352,001 |
| Balance at December 31, 2010 | 9,986,065 | \$ 99,861 | \$ 19,084,646 | (694,796) | \$ | —\$ 18,489,711 |

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

DGSE COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

| | 2010 | 2009 | 2008 |
|--|--------------|--------------|----------------|
| Cash flows from operating activities: | | | |
| Net earnings (loss) | \$ 5,663,374 | \$ (313,694) | \$ (7,851,207) |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Depreciation and amortization | 494,911 | 410,838 | 484,832 |
| Impairment of Goodwill | — | — | 8,185,443 |
| Deferred taxes | (793,736) | 176,857 | (102,827) |
| (Gain)/Loss on sale of marketable securities | (17,440) | — | 115,991 |
| Stock options expense | 35,768 | 84,729 | 18,512 |
| Loss (gain) on discontinued operations | — | (14,500) | — |
| Bad debt expense | 295,617 | — | — |
| Gain on sale of Stanford debt settlement | (9,198,570) | — | — |
| Inventory impairment | 3,771,702 | — | — |
| Loss on settlement of litigation | 385,000 | — | 50,000 |
| (Increase) decrease in operating assets and liabilities: | | | |
| Trade receivables | (144,559) | 2,173,749 | 1,473,136 |
| Inventories | (3,052,133) | (2,362,528) | (3,077,051) |
| Prepaid expenses and other current assets | 390,933 | (223,275) | (27,417) |
| Other long-term assets | (51,583) | (25,749) | 49,583 |
| Accounts payable and accrued expenses | 86,437 | 541,105 | (668,000) |
| Customer deposits | 335,859 | 870,284 | 915,554 |
| Federal income taxes payable | — | — | (580,031) |
| Net cash provided (used) by operating activities | (1,798,418) | 1,317,816 | (1,013,482) |
| Cash flows from investing activities: | | | |
| Pawn loans made | — | (635,020) | (1,294,876) |
| Pawn loans repaid | — | 328,074 | 649,122 |
| Recovery of pawn loan principal through sale of forfeited collateral | — | 298,483 | 624,557 |
| Purchase of property and equipment | (128,081) | (419,783) | (1,130,602) |
| Deal cost for Superior Galleries acquisition | — | — | (70,379) |
| Investment in securities | — | (45,000) | — |
| Proceeds from sale of discontinued operations | — | 1,324,450 | — |
| Proceeds from sale of securities | 54,940 | — | — |
| Net cash provided by (used) by investing activities | (73,141) | 851,204 | (1,222,178) |
| Cash flows from financing activities: | | | |
| Borrowings from long-term debt and line of credit | 2,140,582 | — | 2,500,000 |
| Repayments of long-term debt and line of credit | (1,248,096) | (942,389) | (580,795) |
| Repayments of note payable in conjunction with legal settlement | (96,183) | — | — |
| Proceeds from issuance of common stock and convertible debt in connection with private placement | 500,000 | — | — |
| Net cash provided (used) by financing activities | 1,296,303 | (942,389) | 1,919,205 |
| Net increase (decrease) in cash and cash equivalents | (575,256) | 1,226,631 | (316,455) |

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| | | | |
|---|------------|--------------|------------|
| Cash and cash equivalents at beginning of period | 1,446,724 | 220,093 | 536,548 |
| Cash and cash equivalents at end of period | \$ 871,468 | \$ 1,446,724 | \$ 220,093 |
| Supplemental disclosures: | | | |
| Cash paid during the year for: | | | |
| Interest | \$ 417,768 | \$ 381,919 | \$ 904,242 |
| Income taxes | — | — | 600,000 |
| Non cash Financing Activities: | | | |
| Issuance of note payable in conjunction with legal settlement | \$ 385,000 | \$ — | — |
| Issuance of common stock in exchange for rent concession | — | 70,000 | — |

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

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DGSE Companies, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2010, 2009 and 2008

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. and its subsidiaries (the “Company”), sell jewelry and bullion products to both retail and wholesale customers throughout the United States through its facilities in Dallas and Eules, Texas, Mt. Pleasant, South Carolina, Woodland Hills California and through its various internet sites.

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

In November 2008, the Company decided to discontinue the live auction segment of its business activities. The decision was based on the substantial losses being incurred by this operating segment during 2008. As a result, the operating results of the auction segment have been reclassified to discontinued operations for 2009 and 2008. During 2009 and 2008, the auction segment incurred pretax losses of \$710,656 and \$2,379,151.

In July 2009, the Company sold the assets of our National Pawn locations and discontinued operations in those locations. As a result, the operating results of National Pawn have been reclassified to discontinued operations for 2009, 2008 and 2007. During 2009, we recognized a pretax gain of \$14,450 on the disposal of assets and incurred a pretax loss of \$9,599 from operations.

In December 2009, the Company decided to discontinue the operations of Superior Estate Buyers. This decision was based on the substantial losses being incurred by this component during 2009. As a result, the operating results of this segment have been reclassified to discontinued operations for 2009 and 2008. During 2009 and 2008, Superior Estate Buyers incurred a pretax loss of \$87,120 and 17,095.

As a result of these dispositions, the Consolidated Financial Statements and related notes have been reclassified to present the results of the American Pay Day Center locations, Auction Segment, National Pawn and Superior Estate Buyer’s activities as discontinued operations.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Investments in Marketable Equity Securities

Marketable equity securities have been categorized as available-for-sale and carried at fair value. Unrealized gains and losses for available-for-sale securities are included as a component of shareholders’ equity net of tax until realized. Realized gains and losses on the sale of securities are based on the specific identification method. The Company continually reviews its investments to determine whether a decline in fair value below the cost basis is other than temporary. If the decline in the fair values is judged to be other than temporary, the cost basis of the security is written down to fair value and the amount of the write-down is included in the consolidated statements of operations.

Inventory

Jewelry and other inventory are valued at lower-of-cost-or-market (specific identification). Bullion inventory is valued at lower-of-cost-or-market (average cost).

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 included in income.

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DGSE Companies, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2010, 2009 and 2008

Note 1 – Summary of Accounting Policies and Nature of Operations - continued

Goodwill

In accordance with Accounting Standards Codification (ASC) 350, Intangibles—Goodwill and Other, we test goodwill for impairment annually or more frequently if events occur which indicate a potential reduction in the fair value of a reporting unit's net assets below its carrying value. We calculate estimated fair value using the present value of future cash flows expected to be generated using weighted average cost of capital, terminal values and updated financial projections. If our actual results are not consistent with estimates and assumptions used to calculate fair value, we may be required to recognize additional goodwill impairments. See Note 7 for additional disclosures related to goodwill.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment by comparing the carrying value of the assets with their estimated future cash flows. If the evaluation indicates that the carrying amount of the asset may not be recoverable, the potential impairment is measured based on a projected discounted cash flow method, using a discount rate that is commensurate with the risk inherent in our current business model. Assumptions are made with respect to cash flows expected to be generated by the related assets based upon the most recent projections. Any changes in key assumptions, particularly performance or market conditions, could result in an unanticipated impairment charge. For instance, in the event of a major market downturn or adverse developments within a particular market or portion of our business, individual stores may become unprofitable, which could result in a write-down of the carrying value of the assets located in those stores.

Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, marketable securities, short-term debt, accounts payable and accrued expenses approximate fair value because of the immediate or short-term maturity of these consolidated financial instruments. The carrying amount reported for long-term debt approximates fair value because substantially all of the underlying instruments have variable interest rates which adjust frequently or the interest rates approximate current market rates.

Advertising Costs

Advertising costs are expensed as incurred and amounted to \$1,803,806, \$2,636,178 and \$2,028,275 for 2010, 2009 and 2008, respectively.

Accounts Receivable

The Company records trade receivables when revenue is recognized. No product has been consigned to customers. The Company's allowance for doubtful accounts is primarily determined by review of specific trade receivables. Those 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, 2010 and 2009, the Company did not have an allowance recorded.

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.

The Company accounts for its 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, 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.) No additional liabilities have been recognized as a result of the implementation. 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, 2010 and 2009, respectively.

DGSE Companies, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2010, 2009 and 2008

Note 1 – Summary of Accounting Policies and Nature of Operations - continued

Revenue Recognition

Revenue is generated from wholesale and retail sales of rare coins, precious metals, bullion and second-hand jewelry. The recognition of revenue varies for wholesale and retail transactions and is, in large part, dependent on the type of payment arrangements made between the parties. The Company recognizes sales on an F.O.B. shipping point basis.

The Company sells rare coins to other wholesalers/dealers within its industry on credit, generally for terms of 14 to 60 days, but in no event greater than one year. The Company grants credit to new dealers based on extensive credit evaluations and for existing dealers based on established business relationships and payment histories. The Company generally does not obtain collateral with which to secure its accounts receivable when the sale is made to a dealer. The Company maintains reserves for potential credit losses based on an evaluation of specific receivables and its historical experience related to credit losses.

Revenues for monetary transactions (i.e., cash and receivables) with dealers are recognized when the merchandise is shipped to the related dealer.

The Company also sells rare coins to retail customers on credit, generally for terms of 30 to 60 days, but in no event greater than one year. The Company grants credit to new retail customers based on extensive credit evaluations and for existing retail customers based on established business relationships and payment histories. When a retail customer is granted credit, the Company generally collects a payment of 25% of the sales price, establishes a payment schedule for the remaining balance and holds the merchandise as collateral as security against the customer's receivable until all amounts due under the credit arrangement are paid in full. If the customer defaults in the payment of any amount when due, the Company may declare the customer's obligation in default, liquidate the collateral in a commercially reasonable manner using such proceeds to extinguish the remaining balance and disburse any amount in excess of the remaining balance to the customer.

Under this retail arrangement, revenues are recognized when the customer agrees to the terms of the credit and makes the initial payment. We have a limited-in-duration money back guaranty policy (as discussed below).

In limited circumstances, the Company exchanges merchandise for similar merchandise and/or monetary consideration with both dealers and retail customers, for which the Company recognizes revenue in accordance with ASC 845, Nonmonetary Transactions. When the Company exchanges merchandise for similar merchandise and there is no monetary component to the exchange, the Company does 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 the Company exchanges merchandise for similar merchandise and there is a monetary component to the exchange, the Company recognizes revenue to the extent of monetary assets received and determine 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 has a return policy (money-back guarantee). The policy covers retail transactions involving graded rare coins only. Customers may return graded rare coins purchased within 7 days of the receipt of the rare coins for a full refund as long as the rare coins are returned in exactly the same condition as they were delivered. In the case of rare coin sales on account, customers may cancel the sale within 7 days of making a commitment to purchase the rare coins. The receipt of a deposit and a signed purchase order evidences the commitment. Any customer may return a

coin if they can demonstrate that the coin is not authentic, or there was an error in the description of a graded coin.

Revenues from the sale of consigned goods are recognized as commission income on such sale if the Company is acting as an agent for the consignor. If in the process of selling consigned goods, the Company makes an irrevocable payment to a consignor for the full amount due on the consignment and the corresponding receivable from the buyer(s) has not been collected by the Company at that payment date, the Company records that payment as a purchase and the sale of the consigned good(s) to the buyer as revenue as the Company has assumed all collection risk.

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DGSE Companies, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2010, 2009 and 2008

Note 1 – Summary of Accounting Policies and Nature of Operations - continued

Fair Value Measures

In September 2006, the Financial Accounting Standards Board issued ASC 820, Fair Value Measurements and Disclosure. ASC 820 clarifies the definition of fair value, describes methods used to appropriately measure fair value, and expands fair value disclosure requirements, but does not change existing guidance as to whether or not an instrument is carried at fair value.

ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair values. These tiers include:

- Level 1 — Quoted prices for identical instruments in active markets;
- Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose significant inputs are observable; and
- Level 3 — Instruments whose significant inputs are unobservable.

As cash and short-term cash investments, trade payables and certain other short-term financial instruments are all short-term in nature; their carrying amount approximates fair value.

The Company believes that the recorded values of its variable rate and approximated their fair value. Estimates of fair value are based on estimated interest rates for the same or similar debt offered to the Company having the same or similar maturities and collateral requirements.

We utilize fair value techniques to evaluate the need for potential impairment losses related to goodwill and intangible assets not subject to amortization pursuant to ASC 350, Intangible—Goodwill and Other and long-lived assets pursuant to ASC 360, Property, Plant and Equipment. We calculate estimated fair value using Level 3 inputs, including the present value of future cash flows expected to be generated using weighted average cost of capital, terminal values and updated financial projections. The weighted average cost of capital was estimated using information from comparable companies and management's judgment related to risks associated with the operations of each reporting unit. The terminal value used in the goodwill analysis was determined based on estimates of long-term inflation expectations.

Shipping and Handling Costs

Shipping and handling costs are included in selling general and administrative expenses, and amounted to \$186,450, \$357,492 and \$248,333 for 2010, 2009 and 2008, respectively.

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 (Loss) Per Share

Basic earnings (loss) per common share is computed by dividing net earnings (loss) 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.

Comprehensive Income

The Company reports all changes in comprehensive income in the consolidated statements of changes in shareholders' equity, in accordance with the provisions of ASC 220, Comprehensive Income.

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DGSE Companies, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2010, 2009 and 2008

Note 1 – Summary of Accounting Policies and Nature of Operations - continued

Stock-Based Compensation

The Company accounts for share-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 years 2010, 2009 and 2008 includes compensation expense for new share-based awards and for share-based awards granted prior to, but not yet vested, as of January 1, 2006.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Reclassifications

Certain reclassifications of prior year data have been made to the consolidated financial statements to conform to the current year presentation.

New Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update 2010-06, Improving Disclosures about Fair Value Measurements ("ASU 2010-06"). ASU 2010-06 provides more robust disclosures about the transfers between Levels 1 and 2, the activity in Level 3 fair value measurements and clarifies the level of disaggregation and disclosure related to the valuation techniques and inputs used. The new disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the Level 3 activity disclosures, which are effective for fiscal years beginning after December 15, 2010. We do not expect a material impact from the adoption of this guidance on our consolidated financial statements.

In February 2010, the FASB issued Accounting Standards Update 2010-09, Amendments to Certain Recognition and Disclosure Requirements ("ASU 2010-09"). ASU 2010-09 amends the guidance issued in ASC 855, Subsequent Events, by not requiring SEC filers to disclose the date through which an entity has evaluated subsequent events. ASU 2010-09 was effective upon issuance. There was not a material impact from the adoption of this guidance on our consolidated financial statements.

Note 2 – Concentration of Credit Risk

The Company maintains cash balances in financial institutions in excess of federally insured limits.

Note 3 – Inventories

A summary of inventories at December 31 is as follows:

| | 2010 | 2009 |
|--------------|----------------------|----------------------|
| Jewelry | \$ 12,568,505 | \$ 12,880,768 |
| Scrap gold | 736,852 | 280,051 |
| Bullion | 1,518,801 | 3,584,294 |
| Rare coins | 2,222,558 | 1,021,172 |
| Total | \$ 17,046,716 | \$ 17,766,285 |

In May 2010, the Company undertook a complete accounting and financial reporting system conversion, replacing an older accounting system with a newer system that provides better reporting, functionality, and improved controls. Management determined the conversion requirements and the conversion process created multiple process and reporting errors in their general ledger and financial reporting modules inclusive of multiple book to physical and other inventory reconciling items, under reporting of customer deposits, and various unreconcilable errors identified when the Company performed its annual book to physical count adjustments at year end. The sum total of adjustments required to correct the effected account balances was \$3,771,702 which was reflected as an adjustment to inventory impairment expense in the second quarter. These adjustments are reflected net of tax effects in our second quarter results that have been restated in the quarterly comparison in Note 19 of our financial statements. See also management's discussion of the internal control deficiency which precipitated this reporting problem.

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DGSE Companies, Inc. and Subsidiaries
 Notes to Consolidated Financial Statements
 December 31, 2010, 2009 and 2008

Note 4 – Investments

As of December 31, 2010 and 2009, the Company’s investments were classified as follows:

| 2010 | | | | |
|----------------------------|----------|------------------------------|-------------------------------|------------|
| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Non-Current: | | | | |
| Available-for-sale: | | | | |
| Investments | \$ 7,500 | - | - | \$ 7,500 |

| 2009 | | | | |
|----------------------------|--------|------------------------------|-------------------------------|------------|
| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Non-Current: | | | | |
| Available-for-sale: | | | | |
| Investments | 45,000 | - | - | 45,000 |

Investment income (loss) for the years ended December 31, 2010, 2009 and 2008 consists of the following:

| | 2010 | 2009 | 2008 |
|--|------|------|-----------|
| Interest Income | - | - | - |
| Dividend Income | - | - | - |
| (Loss) on sale of marketable securities | - | - | - |
| Impairment of marketable securities | - | - | (115,991) |
| Total | - | - | (115,991) |

The Company invests in various securities for business and strategic purposes. Investments are classified as “available for sale” and are carried at fair value based on quoted market prices. The Company reviews its investments on a regular basis to determine if any security has experienced an other-than-temporary decline in fair value. The Company considers various factors including the investee company’s cash position, earnings and revenue outlook, stock price performance, liquidity and management ownership, among other factors, in its review. If it is determined that an other-than-temporary decline exists in a security, the Company writes down the investment to its market value and records the related write-down as an investment loss in its Statement of Operations.

At December 31, 2008, the Company wrote-off the value of certain of its equity security investments. The write-off amounted to \$115,992 and was due to a decline in the fair value of the equity security which, in the opinion of management, was considered to be other than temporary. The write-off is included in “Other income (expense)” in the accompanying Statement of Operations for 2008.

DGSE Companies, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2010, 2009 and 2008

Note 5 – Property and Equipment

A summary of property and equipment at December 31, 2010 and 2009 is as follows:

| | 2010 | 2009 |
|---|---------------------|---------------------|
| Buildings and improvements | \$ 3,278,586 | \$ 3,275,395 |
| Machinery and equipment | 2,151,141 | 1,378,158 |
| Furniture and fixtures | 153,967 | 802,060 |
| | 5,583,694 | 5,455,613 |
| Less: accumulated depreciation and amortization | 2,277,647 | 1,902,941 |
| | 3,306,047 | 3,552,673 |
| Land | 1,160,470 | 1,160,470 |
| Total property and equipment | \$ 4,466,517 | \$ 4,713,142 |

Note 6 – Goodwill

At December 31, goodwill was reflected for the following reporting units:

| | 2010 | 2009 |
|-----------------------|------------|------------|
| Wholesale watch sales | \$ 837,117 | \$ 837,117 |
| Total goodwill | \$ 837,117 | \$ 837,117 |

In accordance with ASC 350, Intangibles—Goodwill and Other, we test goodwill for impairment annually or more frequently if events occur which indicate a potential reduction in the fair value of a reporting unit's net assets below its carrying value. We calculate estimated fair value using the present value of future cash flows expected to be generated using a weighted average cost of capital, terminal values and updated financial projections. Based on the test results, we concluded that no impairment was necessary for the \$837,117 of goodwill related to the Fairchild acquisition. The key assumptions used to determine the fair value of our reporting units include: (1) cash flow projections for five years assuming positive comparable sales growth; (2) terminal year growth rates of two percent; and (3) discount rates based on our weighted average cost of capital adjusted for risks associated with the operations of the reporting unit. While we believe we have made reasonable estimates and assumptions to calculate the fair value of the reporting units, it is possible a material change could occur. If our actual results are not consistent with estimates and assumptions used to calculate fair value, we may be required to recognize goodwill impairments.

Based on the test results performed in fiscal year 2009, we fully impaired goodwill totaling \$8.2 million related to a reporting unit in the Auction segment. The charge was allocated amongst discontinued and continuing operations in the consolidated statements of operations.

Note 7 – Notes Payable

At December 31, 2010 and 2009, the Company was obligated to an individual under an unsecured, demand note bearing an annual interest rate of 8% totaling \$52,455 and \$48,569, respectively. The note is payable on demand at request of the holder.

DGSE Companies, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2010, 2009 and 2008

Note 8 – Long-Term Debt

| | 2010 | 2009 |
|--|--------------|---------------|
| A summary of long-term debt at December 31, follows: | | |
| Revolving promissory notes payable to bank, a note of \$3,499,887 and \$3,195,000 at December 31, 2010 and 2009, respectively, which bears interest at the greater of 6% or prime plus 1% (6.0% at December 31, 2010) and is due June 22, 2011 and a note of \$1,000,000 which bears interest at the greater of 6% or prime plus 1% (6.0% at December 31, 2010) due in equal monthly installments of \$16,667 through June 22, 2012. Balance of note was \$833,331 and \$216,639 as of December 31, 2010 and 2009, respectively. The defined borrowing base requirement is based on eligible trade receivables and inventory. As of December 31, 2010, available but unused borrowing capacity on the revolver was \$0. These notes are secured by all accounts receivable, inventory, property and equipment and intangible assets. The notes contain certain covenants, restricting payment of dividends and requiring the Company to maintain certain financial ratios. In addition to the above, the Company had an additional \$11,500,000 line of credit with Stanford International Bank, LTD. Interest on this facility was based on the prime rate, as reported in the Wall Street Journal and the facility was to mature and become due in May 2011. As of December 31, 2009, \$9,200,000 had been drawn against the line of credit, most of which related to the Superior Galleries acquisition. During 2010, all outstanding obligations to Stanford International Bank, LTD were converted for 1,000 shares of the Company's common stock (See Note13). | \$ 4,388,162 | \$ 12,611,915 |
| Mortgage payable, due in monthly installments of \$22,744, including interest of 6.70%, with a lump sum principal payment of approximately \$1.5 million due at its maturity date of August 1, 2016. | 2,165,170 | 2,251,387 |
| Settlement payable, due in monthly installments of \$12,065, including interest of 8% through February 15, 2013. | 288,817 | — |
| Note payable, due January 2, 2013. Interest is payable in monthly installments at a rate of 8% | 247,555 | 247,555 |
| Line of credit | 7,089,704 | 15,110,857 |
| Long-term debt, excluding line of credit | (3,499,887) | (3,195,000) |
| Current portion of long-term debt | 3,589,817 | 11,915,857 |
| Long-term debt, net of current portion | (420,170) | (310,714) |
| | \$ 3,169,647 | \$ 11,605,143 |

The following table summarizes the aggregate maturities of long-term debt and reflects the revised maturities from refinancing of certain long-term debt subsequent to year-end:

| | | 2010 |
|--------------|----|---------|
| December 31, | | |
| 2011 | \$ | 420,170 |
| 2012 | | 450,558 |

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| | |
|------------|--------------|
| 2013 | 587,763 |
| 2014 | 322,540 |
| 2015 | 214,318 |
| Thereafter | 1,594,468 |
| | \$ 3,589,817 |

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DGSE Companies, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2010, 2009 and 2008

Note 9 – Convertible Debt

In July 2010, the Company sold in a private placement to qualified buyers and accredited investors five units comprised of 24,286 shares of Common Stock and indebtedness of the Company in the principal amount of \$50,000 (the Note) for a purchase price of \$100,000 per unit. The Notes are unsecured, bear interest at 7% per annum and are due August 16, 2015. Interest is payable quarterly in cash or common stock based on a defined interest conversion rate at the Company's option. The unpaid principal and accrued interest of each Note, at the option of the lender, may be converted into shares of common stock of the Company based on a defined conversion rate. Total funds received of \$500,000 were allocated \$352,000 to the Common Stock and 148,000 to the Notes. The values assigned to both the Notes and the Common Stock were allocated based on their relative fair values. The relative fair value of the Common Stock of \$352,000 at the time of issuance, which was determined based on the trading price of the Company's common stock at the time of issuance, was recorded as additional paid-in capital and reduced the carry value of the Notes. The discount on the Notes is being amortized to interest expense over the term of the Notes. At December 31, 2010, the principal balance of the Notes of \$250,000 was presented net of unamortized discounts of approximately \$102,000.

Note 10 – Earnings Per Common Share

A reconciliation of the income and shares of the basic earnings per common share and diluted earnings per common share for the years ended December 31, 2010, 2009 and 2008 is as follows:

| | Net Earnings | Shares | Per Share |
|-------------------------------------|---------------------------------------|------------|-----------|
| | (In thousands, except per share data) | | |
| Year ended December 31, 2010 | | | |
| Basic earnings per common share | \$ 5,663,374 | 9,894,243 | \$.57 |
| Effect of dilutive stock options | — | 461,288 | |
| Diluted earnings per common share | \$ 5,663,374 | 10,355,531 | \$.55 |
| Year ended December 31, 2009 | | | |
| Basic earnings per common share | \$ (313,694) | 9,838,735 | \$ (0.03) |
| Effect of dilutive stock options | — | — | |
| Diluted earnings per common share | \$ (313,694) | 9,838,735 | \$ (0.03) |
| Year ended December 31, 2008 | | | |
| Basic earnings per common share | \$ (7,851,207) | 9,708,045 | \$ (0.81) |
| Effect of dilutive stock options | — | — | |
| Diluted earnings per common share | \$ (7,851,207) | 9,708,045 | \$ (0.81) |

For the year ended December 31, 2010, 2009 and 2008, approximately 30 thousand shares, 1.4 million shares and 1.4 million shares, respectively related to employee stock options were not added to the denominator because inclusion of such shares would be antidilutive.

For the year ended December 31, 2010, 2009 and 2008, approximately 0 shares, 400,000 shares and 400,000 shares, respectively related to warrants issued in conjunction with certain acquisitions were not added to the denominator

because inclusion of such shares would be antidilutive.

The following table sets forth outstanding shares of common stock issued in the form of stock purchase warrants and employee stock options as of December 31:

| | 2010 | 2009 | 2008 |
|--|-----------|-----------|-----------|
| Warrants issued in conjunction with financing | — | — | — |
| Warrants issued in conjunction with acquisitions | — | 422,814 | 422,814 |
| Common stock options | 1,498,134 | 1,518,134 | 1,458,155 |

The warrants issued in conjunction with acquisitions were issued to expire on May 29, 2014 at an exercise price of \$1.89. During 2010, these warrants extinguished in conjunction with the Stanford debt settlement (see Note 13)

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Note 11 – Stock Options

In March 2004, our board of directors and the stockholders approved the 2004 Stock Option Plan that provided for incentive stock options and nonqualified stock options to be granted to key employee and certain directors. Our Board of Directors or designated committee established the terms of each option granted under the 2004 Stock Option Plan. The stock options granted under the plan generally vest over 1 to 5 years and have a maximum contractual life of 10 years. At December 31, 2010 we had no options available for grant and 1,368,134 options granted and outstanding under the 2004 Stock Option Plan.

In May 2007, our board of directors and the stockholders approved the 2006 Equity Incentive Plan that provided for incentive stock options and nonqualified stock options to be granted to key employee and certain directors. Our Board of Directors or designated committee established the terms of each option granted under the 2006 Equity Incentive Plan. The stock options granted under the plan generally vest over 1 to 5 years and have a maximum contractual life of 10 years. At December 31, 2010 we had 700,000 options available for grant and 130,000 options granted and outstanding under the 2006 Equity Incentive Plan.

The following table summarizes the activity in common shares subject to options for the years ended December 31, 2010, 2009 and 2008:

| | 2010 | | At December 31, 2009 | | 2008 | |
|------------------------------------|-----------|--|-------------------------|--|-----------|--|
| | Shares | Weighted average exercise price | Shares | Weighted average exercise price | Shares | Weighted average exercise price |
| Outstanding at beginning of year | 1,518,134 | \$ 2.02 | 1,458,155 | \$ 2.17 | 1,479,252 | \$ 2.13 |
| Granted | - | 0.00 | 100,000 | 0.78 | - | 0.00 |
| Exercised | - | 0.00 | - | 0.00 | - | 0.00 |
| Forfeited | (20,000) | 2.97 | (40,021) | 5.25 | (21,097) | 5.72 |
| Outstanding at end of year | 1,498,134 | \$ 2.01 | 1,518,134 | \$ 2.02 | 1,458,155 | \$ 2.17 |
| Options exercisable at end of year | 1,486,134 | \$ 1.98 | 1,500,134 | \$ 1.98 | 1,418,155 | \$ 2.16 |

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Note 11 – Stock Options (continued)

The weighted average estimated fair value of stock options granted during 2009 was \$0.43 using the Black-Scholes-Morton option pricing formula utilizing a dividend yield of \$0, volatility of 67%, risk-free rate of .10%, and expected life of 5 years. Dividend yield was determined to be \$0 as these have not been historically paid. Expected volatility is based on the historical volatility calculated from the historical values of the Company's stock prices. The risk-free rate is based on the U.S. treasury yield curve in effect at the time of grant. The company estimates for forfeitures based on historical data.

Information about Plan stock options outstanding at December 31, 2010 is summarized as follows:

| Range of exercise prices | Number outstanding | Options outstanding | | |
|--------------------------|--------------------|---|---------------------------------|---------------------------|
| | | Weighted average remaining contractual life | Weighted average exercise price | Aggregate intrinsic value |
| \$ 0.78 | 100,000 | 8 years | \$ 0.78 | \$ 350,000 |
| \$ 1.12 | 267,857 | 2 years | 1.12 | 846,428 |
| 1.13 to | | | | |
| \$ \$2.25 | 1,062,777 | 2 years | 2.21 | 2,199,948 |
| 2.26 to | | | | |
| \$ \$2.82 | 30,000 | 2 years | 2.56 | 51,600 |
| 2.83 to | | | | |
| \$ \$4.19 | 7,500 | 1 years | 4.06 | 1,650 |
| \$ 6.00 | 30,000 | 7 years | 6.00 | - |
| | 1,498,134 | | | \$ 3,449,626 |

| Range of exercise prices | Number outstanding | Options exercisable | | |
|--------------------------|--------------------|---|---------------------------------|---------------------------|
| | | Weighted average remaining contractual life | Weighted average exercise price | Aggregate intrinsic value |
| \$ 0.78 | 100,000 | 8 years | \$ 0.78 | \$ 350,000 |
| \$ 1.12 | 267,857 | 2 years | 1.12 | 846,428 |
| 1.13 to | | | | |
| \$ \$2.25 | 1,062,777 | 2 years | 2.21 | 2,199,948 |
| 2.26 to | | | | |
| \$ \$2.82 | 30,000 | 2 years | 2.56 | 51,600 |
| 2.83 to | | | | |
| \$ \$4.19 | 7,500 | 1 years | 4.06 | 1,650 |
| \$ 6.00 | 18,000 | 7 years | 6.00 | - |
| | 1,486,134 | | | \$ 3,449,626 |

The aggregate intrinsic values in the above table were based on the closing price of our common stock of \$4.28 as of December 31, 2010. The aggregate fair value of stock options vesting during 2010 and 2009 was \$28,000 and \$71,000, respectively.

During 2010, 2009, and 2008, we recognized \$35,768, \$84,729 and \$36,092 respectively, of stock-based compensation expense related to the plans, which was recorded in selling, general, and administrative expenses. At December 31, 2010, the balance of unearned stock-based compensation to be expensed in future periods related to unvested share-based awards was approximately \$67,000. The weighted average period over which the unearned stock-based compensation was expected to be recognized was approximately 2 years.

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DGSE Companies, Inc. and Subsidiaries
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Note 12 – Intangible Assets

Intangible assets represent the customer base and trade name resulting from the Superior Acquisition as follows:

| | December 31, 2010 | December 31, 2009 |
|-------------------|----------------------|----------------------|
| Customer base | \$ 343,999 | \$ 372,666 |
| Trade name | \$ 2,091,340 | \$ 2,091,340 |
| Intangible assets | \$ 2,435,339 | \$ 2,464,006 |

Only the customer base intangible asset is subject to amortization. The customer base is being amortized over a 15 year life. Amortization expense related to the customer base was \$28,667 and 28,667 for the years ended December 31, 2010 and 2009, respectively. The accumulated amortization as of December 31, 2010 and 2009 is \$86,001 and \$57,334, respectively.

Note 13 – Settlement of Litigation

On January 27, 2010, DGSE Companies, Inc. (“DGSE”) and Stanford International Bank, LTD (“SIBL”), which prior to the closing of certain settlement agreements discussed below was a beneficial owner of a significant equity interest in DGSE, a primary lender to a wholly owned subsidiary of DGSE and subject to certain agreements with DGSE and its Chairman, entered into a Purchase and Sale Agreement and a Debt Conversion Agreement to settle DGSE’s lawsuit against SIBL. On May 25, 2010, DGSE and SIBL and a third party entered in a closing agreement to finalize the settlement agreements upon the approval of the settlement by the United States District Court for the Northern District of Texas which has jurisdiction for the assets of SIBL. Upon closing of the transaction, SIBL terminated all agreements, converted all of its debt, interest and other expenses for 1,000 shares of DGSE common stock and sold 3,000,000 shares of common stock common stock to DGSE’s assignee, NTR Metals for \$3,000,000 under a Partial Assignment Agreement. Pursuant to the partial assignment of the Company’s rights as a Buyer to NTR under the Company-SIBL Purchase Agreement, NTR acquired directly from SIBL 3,000,000 Shares of the Company (the “NTR Acquired Interest”). The parties agreed that the remaining portion of the SIBL Equity Interest (i.e. 377,361 Shares) be transferred as designated by the Company. SIBL cancelled 422,814 additional warrants to purchase additional shares of DGSE as part of the settlement agreement. As a result of the transaction, the Company recognized a gain of \$9,198,570 related to the cancellation of debt.

On February 26, 2010, Superior Galleries, Inc. (“Superior”) entered into a settlement agreement for a lawsuit filed by its previous landlord, DBKK, LLC for \$385,000 to be paid over three years bearing interest at 8%. The Company’s settlement with DBBK was a risk management decision based on an original claim in the amount of \$806,000. The lawsuit resulted from a lease transaction entered into by certain officers of Superior, Larry Abbott and Silvano Digenova, during a time when the Company had a management contract with Superior between these certain officers and Stanford International Bank, Ltd (“SIBL”) that precluded them from entering into these transactions. Although the claim has been settled, the Company believes it has a counter claim against Abbott, Digenova, and SIBL resulting from their false and misleading facts regarding the management of Superior and its financial condition, further business opportunities and available financing which induced the Company to acquire Superior. As of December 31, 2010, the Company has recorded \$385,000 loss related to the settlement of this litigation in other (income) expense.

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Note 14 – Income Taxes

Deferred income taxes are comprised of the following at December 31, 2010 and 2009:

| | 2010 | 2009 |
|--|--------------|--------------|
| Deferred tax assets (liabilities): | | |
| Inventory | \$ 94,551 | \$ 90,951 |
| Stock option and other | 44,196 | 34,122 |
| Unrealized loss on available for sale securities | — | — |
| Property and equipment | (187,721) | (175,046) |
| Capital loss carryover | — | — |
| Net operating and other loss carryforward | 3,084,745 | 2,377,138 |
| Goodwill and intangibles | (191,260) | (93,892) |
| Total deferred tax assets | \$ 2,844,511 | \$ 2,233,273 |
| Valuation Allowance | — | (182,498) |
| | \$ 2,844,511 | \$ 2,050,775 |

The tax provision (benefit) on pretax income from continuing operations includes the following:

| | 2010 | 2009 | 2008 |
|--------------------|--------------|------------|--------------|
| Federal— | | | |
| Current | \$ — | \$ — | \$ 1,118,458 |
| Deferred | (754,049) | 157,784 | (92,545) |
| | (754,049) | 157,784 | 1,025,940 |
| State and foreign— | | | |
| Current | 13,390 | 45,986 | 53,694 |
| Deferred | (39,687) | 17,686 | (10,283) |
| | (26,297) | 63,672 | 43,411 |
| | \$ (780,346) | \$ 221,456 | \$ 1,069,351 |

A reconciliation of the effective tax rate to the amount computed by applying the federal income tax rate to pretax income:

| | 2010 | 2009 | 2008 |
|---|--------------|------------|----------------|
| Tax expense at statutory rate | \$ 1,660,229 | \$ 211,809 | \$ (1,704,412) |
| Goodwill impairment | — | — | 2,783,051 |
| Other | 20,283 | 9,647 | (9,288) |
| Valuation allowance of net operating losses | (2,460,858) | — | — |
| | (780,346) | 221,456 | 1,069,351 |

DGSE Companies, Inc. and Subsidiaries
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Note 14 – Income Taxes (continued)

As of December 31, 2010 and 2009, the Company had approximately \$3.6 million and \$12.8 million of net operating loss carry-forwards, related to the Superior acquisition which may be available to reduce taxable income in future years, subject to the applicable Internal Revenue Code Section 382 limitations. These carry-forwards will expire, if not utilized, through 2025 to 2026. As of December 31, 2010 and 2009, the Company had approximately \$5.3 million and \$1.6 million of net operating loss carry-forwards related to Superior's post acquisition operating losses and other operating losses incurred by the Company's other operations. These carry-forwards will expire, if not utilized, through 2027 to 2029. As of December 31, 2009, 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 valuation allowance should be recorded for a portion of the amount of the deferred tax asset. As of December 31, 2010, the Company reversed the valuation allowance of \$182,498 and booked an additional approximately \$2.2 million tax benefit from Superior net operating losses that were accessible for utilization as an offset to the Superior debt settlement income recognized in 2010. Management believes that the realization of the remaining benefits from these losses appear to be more than likely based on consideration of all available evidence, including but not limited to historical, current and future anticipated financial results. Accordingly, the Company has not provided a valuation allowance on the deferred tax asset benefit from the net operating loss carry-forwards as of December 31, 2010.

Note 15 – Operating Leases

The Company leases certain of its facilities under operating leases. The minimum rental commitments under noncancellable operating leases as of December 31, 2010 are as follows:

| Year Ending December 31, | Lease Obligations |
|--------------------------|----------------------|
| 2011 | \$ 500,115 |
| 2012 | 515,639 |
| 2013 | 218,055 |
| 2014 | 117,157 |
| 2015 and thereafter | 46,292 |
| | \$ 1,397,258 |

Rent expense for the years ended December 31, 2010, 2009 and 2008 was approximately \$498,628, \$412,377 and \$461,227, respectively.

Note 16 – Discontinued Operations

In November 2008, the Company decided to discontinue the live auction segment of its business activities. The decision was based on the substantial losses being incurred by this operating segment during 2008. As a result, the operating results of the auction segment have been reclassified to discontinued operations for 2009 and 2008. During 2009 and 2008, the auction segment incurred pretax losses of \$710,656 and \$2,379,151.

In July 2009, the Company sold the assets of our National Pawn locations and discontinued operations in those locations. As a result, the operating results of National Pawn have been reclassified to discontinued operations for 2009, 2008 and 2007. During 2009, we recognized a pretax gain of \$14,450 on the disposal of assets and incurred a pretax loss of \$9,599 from operations.

In December 2009, the Company decided to discontinue the operations of Superior Estate Buyers. This decision was based on the substantial losses being incurred by this component during 2009. As a result, the operating results of this segment have been reclassified to discontinued operations for 2009 and 2008. During 2009 and 2008, Superior Estate Buyers incurred a pretax loss of \$87,120 and 17,095.

As a result, operating results from these business segments have been reclassified to discontinued operations for all periods presented.

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DGSE Companies, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
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Note 16 – Discontinued Operations (continued)

The following summarizes the carrying amount of assets and liabilities of the above noted discontinued segment and/or components as of December 31:

| Assets | 2010 | 2009 |
|---------------------------------|------|------------|
| Cash | \$ — | \$ — |
| Accounts receivable | — | — |
| Inventory | — | — |
| Prepaid and other current asset | — | — |
| Current assets | — | — |
| Property and equipment, net | — | — |
| Other long term assets | — | — |
| Long-term receivable | \$ — | \$ 295,617 |
| Total assets | — | \$ 295,617 |
| Liabilities | | |
| Auctions payable | \$ — | \$ — |

During 2010, the Company determined that the long-term receivable noted above was impaired as collectability of this receivable was uncertain. During 2009, the Company successfully obtained judgment against the payee of this long-term receivable. However, the Company has yet to receive payment. The long-term receivable was unsecured and the amount that the Company may ultimately recover, if any, is not presently determinable. Therefore, the balance of this long-term receivable was written off to bad debt expense which is included in selling, general and administrative the 2010 Statement of Operations.

As of December 31, 2010, there were no other operating assets to be disposed of or liabilities to be paid in completing the disposition of these operations.

Note 17 – Related Party Transactions

The Company purchases and sells a substantial portion of precious metal and bullion to NTR Metals. During 2010, NTR Metals, pursuant to the partial assignment of the Company's rights as a Buyer to NTR under the Company-SIBL Purchase Agreement, became a major stockholder of the Company. During 2010, the Company sold approximately \$22 million of precious metals and bullion to NTR Metals. During 2010, the Company purchased approximately \$11 million in precious metal and bullion from NTR Metals to fulfill customer orders. As of December 31, 2010, the Company's was obligated to pay \$752,647 to NTR Metals.

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Note 18 – 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, pay day lending and pawn operations. There were no significant non-cash items during the periods. The Company's operations by segment were as follows:

| (In thousands) | Retail Jewelry | Wholesale Jewelry | Bullion | Rare Coins | Discontinued Operations | Corporate and Other | Consolidated |
|--------------------------------------|----------------|-------------------|-----------|------------|-------------------------|---------------------|--------------|
| Revenues | | | | | | | |
| 2010 | \$ 24,891 | \$ 2,968 | \$ 42,981 | \$ 10,941 | \$ — | \$ 787 | \$ 82,568 |
| 2009 | 24,633 | 3,917 | 42,797 | 14,023 | — | — | 85,407 |
| 2008 | 34,737 | 5,125 | 45,449 | 15,913 | — | — | 101,224 |
| Net income (loss) | | | | | | | |
| 2010 | 103 | 9 | 60 | 35 | — | 5,456 | 5,663 |
| 2009 | 379 | (72) | 65 | 244 | (795) | (135) | (314) |
| 2008 | 1,698 | 197 | 139 | (7,446) | (2,130) | (183) | (7,851) |
| Identifiable assets | | | | | | | |
| 2010 | 24,274 | 984 | 1,519 | 2,222 | — | 424 | 29,423 |
| 2009 | 21,290 | 1,556 | 1,900 | 1,663 | 305 | 4,352 | 31,066 |
| 2008 | 23,396 | 1,710 | 1,955 | 1,827 | 1,206 | 1,250 | 31,344 |
| C a p i t a l | | | | | | | |
| Expenditures | | | | | | | |
| 2010 | 128 | — | — | — | — | — | 128 |
| 2009 | 420 | — | — | — | — | — | 420 |
| 2008 | 1,081 | — | 6 | — | — | 10 | 1,097 |
| Depreciation and amortization | | | | | | | |
| 2010 | 495 | — | — | — | — | — | 495 |
| 2009 | 267 | 6 | 70 | 66 | — | 2 | 411 |
| 2008 | 140 | — | 33 | 104 | 48 | 72 | 397 |
| Goodwill | | | | | | | |
| 2010 | — | 837 | — | — | — | — | 837 |
| 2009 | — | 837 | — | — | — | — | 837 |
| 2008 | — | 837 | — | — | — | — | 837 |
| Interest expense | | | | | | | |
| 2010 | 120 | 53 | 105 | 105 | — | — | 383 |
| 2009 | 126 | 57 | 109 | 109 | — | — | 401 |
| 2008 | 545 | — | 179 | 179 | — | — | 903 |

| Income tax expense | | | | | | | | | | |
|--------------------|-----|---|------|---|----|---|-----|---|--------|---------|
| 2010 | (14 |) | (1 |) | (8 |) | (6 |) | — (751 |) (780) |
| 2009 | 174 | | (33) | | 30 | | 112 | | — (62) | 221 |
| 2008 | 967 | | 55 | | 27 | | 68 | | — (48) | 1,069 |

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Note 19 – Restatement of Quarters Ended June 30 and September 30

When we completed our Form 10-K for the year ended 2010, we determined that it was necessary to restate our unaudited consolidated financial statements and other financial information at and for the quarters ended, June 30 and September 30, 2010. During the second quarter the Company adjusted customer deposits and accounts payable by approximately \$1.9 million and \$1.7 million, respectively, to accurately reflect the respective liabilities. Furthermore, the Company adjusted inventory by approximately \$3.7 million in order to reflect multiple book to physical and other inventory reconciling items. The tax benefits of the aforementioned adjustments was approximately \$1.8 million. During the third quarter the company adjusted these same balances to reflect the changes in the second quarter. The quarterly financial information is presented below:

| | RESTATED | | RESTATED | |
|--|---------------------------------------|-------------|-------------|-------------|
| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
| | (In thousands, except per share data) | | | |
| Year ended December 31, 2010 | | | | |
| Revenues | \$ 17,347 | \$ 20,745 | \$ 18,108 | \$ 26,366 |
| Operating profit | (104) | (3,509) | 224 | (175) |
| Net earnings | (130) | 5,645 | 139 | 10 |
| Basic earnings per common share | \$(0.01) | \$ 0.57 | \$ 0.01 | \$0.00 |
| Diluted earnings per common share | \$(0.01) | \$ 0.54 | \$ 0.01 | \$0.00 |
| Inventory | | \$ 15,428 | \$ 14,583 | |
| Total Current Assets | | 18,738 | 17,602 | |
| Deferred income taxes | | 2,367 | 2,367 | |
| Total Assets | | \$ 29,855 | \$ 28,679 | |
| Accounts payable – trade | | \$ 2,240 | \$ 1,335 | |
| Customer Deposits | | 2,979 | 2,393 | |
| Total Current Liabilities | | 8,886 | 7,849 | |
| Retained earnings (deficit) | | (844) | (705) | |
| Total Stockholders' Equity | | 17,951 | 18,092 | |
| Total Liabilities and Stockholders' Equity | | \$ 29,855 | \$ 28,679 | |
| Year ended December 31, 2009 | | | | |
| Revenues | \$ 25,340 | \$ 21,634 | \$ 16,280 | \$ 22,116 |
| Operating profit | 844 | 1,076 | 731 | (1,552) |
| Net earnings | 229 | 689 | 270 | (1,502) |
| Basic earnings per common share | \$0.02 | \$ 0.07 | \$ 0.03 | \$(0.15) |
| Diluted earnings per common share | \$0.02 | \$ 0.07 | \$ 0.03 | \$(0.15) |
| Year ended December 31, 2008 | | | | |
| Revenues | \$ 32,175 | \$ 25,715 | \$ 23,994 | \$ 23,335 |
| Operating profit | 1,051 | 557 | 1,085 | 962 |

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| | | | | |
|-----------------------------------|--------|---------|---------|-----------|
| Net earnings | 182 | 278 | 166 | (8,477) |
| Basic earnings per common share | \$0.04 | \$ 0.05 | \$ 0.02 | \$(0.86) |
| Diluted earnings per common share | \$0.04 | \$ 0.04 | \$ 0.02 | \$(0.86) |

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