



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, 2008 \$ 11,022,305

Number of shares of Common Stock outstanding as of the close of business on March 27, 2009: 9,833,635

Documents incorporated by reference:

Portions of the definitive proxy statement relating to the 2009 Annual Meeting of Stockholders of DGSE Companies, Inc. are incorporated by reference into Part III of this report.

REASON FOR AMENDMENT

To correct the Exhibits 23.1 and 31.1 through 32.2 to show the appropriate dates and to correct the prepaid federal income tax reflected for 2008 on our Consolidated Balance Sheets on page 47 of the report.

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## PART I

### 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. In addition, we make collateralized loans to individuals in the State of Texas. 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](http://DGSE.com); [CGDEinc.com](http://CGDEinc.com); [SGBH.com](http://SGBH.com); [SuperiorPreciousMetals.com](http://SuperiorPreciousMetals.com); [SuperiorEstateBuyers.com](http://SuperiorEstateBuyers.com); [USBullionExchange.com](http://USBullionExchange.com); [Americangoldandsilverexchange.com](http://Americangoldandsilverexchange.com); and [FairchildWatches.com](http://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.

Our wholly-owned subsidiary, National Jewelry Exchange, Inc, (dba National Pawn), operates two pawn shops in Dallas, Texas. We have focused the subsidiary's operations on sales and pawn loans of jewelry products.

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](http://SGBH.com).

On July 13, 2007, we sold the loan balances from our American Pay Day Center locations and discontinued operations in those locations.

On August 3, 2007 we announced the launch of [Americangoldandsilverexchange.com](http://Americangoldandsilverexchange.com) along with the simultaneous activation of over 900 proprietary Internet sites related to the home page of [Americangoldandsilverexchange.com](http://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. During 2008 Superior Estate Buyers held approximately 24 such buying events. It is our expectation that, over time, this activity will be expanded significantly with the objective of having teams conducting events on a continuous basis.

Superior Precious Metals was also launched in late 2007 and it is the 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.

## 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 Dallas and Eules, Texas, Woodland Hills, California and Mt. Pleasant, South Carolina 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 43.2% of total revenues for 2008, 33.6% in 2007 and 36.9% in 2006.

During December 2000 we opened 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.

We make pawn loans through our National Pawn locations. Pawn loans ("loans") are made on the pledge of tangible personal property, primarily jewelry, for one month with an automatic sixty-day extension period ("loan term"). Pawn service charges are recorded on a constant yield basis over the loan term. If the loan is not repaid, the principal amount loaned plus accrued pawn service charges become the carrying value of the forfeited collateral and are transferred to inventory.

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. Auctions close at least five times per week. .

The SGBH.com website services as a primary rare coin marketing site and includes a retail store and conducts regular online auctions.

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.

During the first half of 2009 all of the active websites are being redesigned, expanded and integrated.

We did not have any customer or supplier that accounted for more than 10% of total sales or purchases during 2008, 2007 or 2006.

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## 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, 2008, 2007 and 2006.

## Seasonality

The retail and wholesale jewelry business is seasonal. We realized 22.2%, 37.2% and 27.7% of our annual sales in the fourth quarters of 2008, 2007 and 2006, 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 and consumer loan activities compete with numerous other retail jewelers and consumer lenders 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, 2008, we employed 102 individuals, 96 of whom were full time employees.

## Available Information

Our website is located at [www.dgse.com](http://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 both 2008 and 2007. During 2008 the auction segment incurred a pretax loss of \$2,379,151.

On July 13, 2007, we sold the loan balances from our American Pay Day Center locations for \$77,496 and discontinued operations in those locations. The receivables sold, including interest due, had a balance of \$120,573 at the time of the sale. The sales price was determined based on the age of the outstanding receivables. As a result of the sale and discontinued operations, we recognized a pretax loss of \$107,838 on the disposal and a pretax loss on discontinued operations of \$51,938 for the year ended December 31, 2007.

As a result, operating results from these business segments have been reclassified to discontinued operations for all periods presented. As of December 31, 2008 there were no operating assets to be disposed of or liabilities to be paid in completing the disposition of these operations.

## Acquisitions.

Superior Galleries, Inc. On May 30, 2007, we completed our acquisition of Superior Galleries, Inc., which we refer to as Superior, pursuant to an amended and restated agreement and plan of merger and reorganization dated as of January 6, 2007, which we refer to as the merger agreement, with Superior and Stanford International Bank Ltd., then Superior's largest stockholder and its principal lender, which we refer to as Stanford, as stockholder agent for the Superior stockholders, whereby Superior became a wholly owned subsidiary of DGSE Companies, Inc. Superior operated a store in Beverly Hills, CA. The total purchase price of approximately \$13.6 million was broken down as follows:

|                           | Shares    | Stock Price | Extended Price |
|---------------------------|-----------|-------------|----------------|
| Common stock              | 3,669,067 | \$ 2.55     | \$ 9,356,121   |
| A warrants                | 845,634   | 1.27(1)     | 1,073,955      |
| B warrants                | 863,000   | 2.55        | 2,220,650      |
| Exercise Price B warrants | 863,000   | \$ .001     | (863)          |
| Direct transaction costs  |           |             | 1,176,290      |
| Total purchase price      |           |             | \$ 13,806,153  |

(1) The \$1.27 is the fair value of the warrants calculated under the Black Sholes method as of the acquisition date.

The total purchase price has been allocated to the fair value of assets acquired and liabilities assumed as follows:

|                           |               |
|---------------------------|---------------|
| Goodwill                  | \$ 8,203,448  |
| Intangible assets...      | 2,521,340     |
| Deferred tax asset        | 1,860,475(1)  |
| Property and other assets | 1,068,958     |
| Inventory                 | 3,260,766     |
| Liabilities assumed       | (3,108,834)   |
| Total purchase price      | \$ 13,806,153 |

(1)

Subsequent to date of acquisition the Company recorded an adjustment to reduce goodwill and increase deferred tax assets to reflect the change in estimated fair value of the net operating loss carryforwards acquired in the Superior acquisition.

In accordance with SFAS 142, the goodwill will not be amortized but instead tested for impairment in accordance with the provisions of SFAS 142 at least annually and more frequently upon the occurrence of certain events.

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 and it was determined that it 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.

The operating results of Superior have been included in the consolidated financial statements since the acquisition date of May 30, 2007. The following unaudited condensed consolidated financial information reflects the pro forma results of operations for the year ended December 31, 2007 as if the acquisition of Superior had occurred on January 1 of 2007 after giving effect to purchase accounting adjustments as compared to actual results of operations for the year ended December 31, 2008 and the effects of the discontinued operations related to the live auction segment. The pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what operating results would have been had the acquisition actually taken place at the beginning of the period, and may not be indicative of future operating results (in thousands, except per share data):

| (In thousands, except per share data) | Year Ended December 31, |            |
|---------------------------------------|-------------------------|------------|
|                                       | 2008                    | 2007       |
|                                       | (Unaudited)             |            |
|                                       | Pro Forma               |            |
| Total revenue                         | \$ 105,219              | \$ 73,565  |
| Net earnings (loss)                   | \$ (7,851)              | \$ (2,920) |
| Net earnings per share — basic        | \$ (.80)                | \$ (.33)   |
| Net earnings per share — diluted      | \$ (.80)                | \$ (.33)   |
| Weighted average shares — basic       | 9,708                   | 8,582      |
| Weighted average shares — diluted     | 9,708                   | 10,353     |

In relation to the acquisition, as of June 29, 2007, Stanford and Dr. L.S. Smith, our chairman and chief executive officer, collectively had the power to vote approximately 63% of our voting securities, and beneficially owned approximately 56.4% of our voting securities on a fully-diluted basis (after giving effect to the exercise of all options and warrants held by them which are exercisable within sixty days of December 31, 2007 but not giving effect to the exercise of any other options or warrants). Consequently, these two stockholders have sufficient voting power to control the outcome of virtually all corporate matters submitted to the vote of our common stockholders. Those matters could include the election of directors, changes in the size and composition of our board of directors, mergers and other business combinations involving us, or the liquidation of our company. In addition, Stanford and Dr. Smith have entered into a corporate governance agreement with us, which entitles Stanford and Dr. Smith to each nominate two "independent" directors to our board and entitles Dr. Smith, our chairman and chief executive officer, and William H. Oyster, our president and chief operating officer, to be nominated to our board for so long as each remains an executive officer.

Through this control of company nominations to our board of directors and through their voting power, Stanford and Dr. Smith are able to exercise substantial control over certain decisions, including decisions regarding the qualification and appointment of officers, dividend policy, access to capital (including borrowing from third-party lenders and the issuance of additional equity securities), a merger or consolidation with another company, and our

acquisition or disposition of assets. Also, the concentration of voting power in the hands of Stanford and Dr. Smith could have the effect of delaying or preventing a change in control of our company, even if the change in control would benefit our other stockholders. The significant concentration of stock ownership may adversely affect the trading price of our common stock due to investors' perception that conflicts of interest may exist or arise.

Eules Gold & Silver, Inc.

On May 9, 2007 we purchased all of the tangible assets of Eules Gold and Silver, Inc., located in Eules, Texas. The purchase price paid for these assets totaled \$1,000,000 including \$600,000 in cash and a two year note in the amount of \$400,000. We opened a new retail store in the former Eules Gold & Silver facility and operate under the name of Dallas Gold & Silver Exchange. Of the assets received, \$990,150 was inventory and the remainder was fixed assets.

We entered into these transactions seeing them as opportunistic acquisitions that would allow us to expand our operations and provide a platform for future growth.

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## 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.

We encounter significant competition in connection with our retail and lending operations from other pawnshops, cash advance companies and other forms of financial institutions and other retailers, many of which have significantly greater financial resources than us. Significant increases in these competitive influences could adversely affect our operations through a decrease in the number or quality pawn loans or our ability to liquidate forfeited collateral at acceptable margins.

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.

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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 in accordance with the requirements of section 404 of the Sarbanes-Oxley Act could have a material adverse impact on us and our investors' confidence in our reported financial information.

Effective internal controls and disclosure controls and processes are necessary for us to provide reliable financial reports and to detect and prevent fraud. 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, 2008 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control — Integrated Framework. Based on this assessment, management has concluded that, as of December 31, 2008, the Company's internal control over financial reporting was effective 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 based on such criteria.

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.

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.

If there is a failure in any of our controls as required by Section 404 of the Sarbanes-Oxley Act that leads to a material misstatement of our financial condition, investors could lose confidence in our reported financial information.



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.

As of June 29, 2007, Stanford International Bank Ltd. (SIBL), which we refer to as Stanford, and Dr. L.S. Smith, our chairman and chief executive officer, collectively had the power to vote approximately 63% of our voting securities, and beneficially owned approximately 56.4% of our voting securities on a fully-diluted basis (after giving effect to the exercise of all options and warrants held by them which are exercisable within sixty days of December 31, 2007 but not giving effect to the exercise of any other options or warrants). Consequently, these two stockholders may have sufficient voting power to control the outcome of virtually all corporate matters submitted to the vote of our common stockholders. Those matters could include the election of directors, changes in the size and composition of our board of directors, mergers and other business combinations involving us, or the liquidation of our company. In addition, Stanford and Dr. Smith have entered into a corporate governance agreement with us, which entitles Stanford and Dr. Smith to each nominate two "independent" directors to our board and entitles Dr. Smith, our chairman and chief executive officer, and William H. Oyster, our president and chief operating officer, to be nominated to our board for so long as he remains an executive officer.

Through this control of company nominations to our board of directors and through their voting power, Stanford and Dr. Smith are able to exercise substantial control over certain decisions, including decisions regarding the qualification and appointment of officers, dividend policy, access to capital (including borrowing from third-party lenders and the issuance of additional equity securities), a merger or consolidation with another company, and our acquisition or disposition of assets. Also, the concentration of voting power in the hands of Stanford and Dr. Smith could have the effect of delaying or preventing a change in control of our company, even if the change in control would benefit our other stockholders. The significant concentration of stock ownership may adversely affect the trading price of our common stock due to investors' perception that conflicts of interest may exist or arise.

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 face new corporate governance requirements under the Sarbanes-Oxley Act of 2002, as well as new rules and regulations subsequently adopted by the SEC, the Public Company Accounting Oversight Board and the NYSE Amex. These laws, rules and regulations continue to evolve and may become increasingly stringent in the future. In particular, we're required to include management's report on internal controls as part of our annual report for the year ending December 31, 2007 pursuant to Section 404 of the Sarbanes-Oxley Act. We are in the process of evaluating our control structure to help ensure that we will be able to comply with Section 404 of the Sarbanes-Oxley Act. We cannot assure you that we will be able to fully comply with these laws, rules and regulations that address corporate governance, internal control reporting and similar matters. Failure to comply with these laws, rules and regulations could materially adversely affect our reputation, financial condition and the value and liquidity of our securities.

The revolving credit facilities with Stanford International Bank Ltd. and Texas Capital Bank, N.A. is each collateralized by a general security interest in our assets. If we were to default under the terms of either 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 \$4.3 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, 2008, approximately \$4.0 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.

In October 2003, Superior entered into a revolving credit facility with Stanford Financial Group Company, which we refer to as SFG, which has assigned the facility to Stanford. The facility currently permits borrowings up to a maximum principal amount of \$11.5 million, up to \$6.5 million of which Superior may upstream to DGSE. Borrowings under the revolving credit facility are collateralized by a general security interest in substantially all of Superior's assets and, to the extent of money upstreamed to DGSE, substantially all of DGSE's assets. As of December 31, 2008, approximately \$9.2 million was outstanding under the revolving credit facility. If Superior were to default under the terms and conditions of the revolving credit facility, Stanford would have the right to accelerate any indebtedness outstanding and foreclose on Superior's assets, and, subject to intercreditor arrangements with Texas Capital Bank and other limitations, our assets, in order to satisfy Superior's indebtedness. Such a foreclosure could have a material adverse effect on our business, liquidity, results of operations and financial position.

We have been informed that on February 19, 2009, a US district court placed SIBL under the supervision of a receiver and that the court enjoined SIBL's creditors and other persons from taking certain actions related to SIBL or its assets. In addition, on the same date, Antiguan Financial Services Regulatory Commission appointed a Receiver for Stanford International Bank Ltd. This action was subsequently ratified by the High Court of Justice in Antigua and Barbuda. As a result of SIBL's current status, we do not believe that Superior will be able to borrow additional funds under either revolving loan, including any amounts Superior is obligated to repay to SIBL pursuant to the repayment provisions applicable to the first revolving note. We believe that certain terms of agreements entered into by us, Superior and/or SIBL and its affiliates in connection with our acquisition of Superior have been breached by SIBL or its affiliates, and we are evaluating available remedies, including but not limited to damages from responsible parties. While Superior does not currently require additional funds under the SIBL credit facility, should the need arise and Superior is unable to replace this credit facility the operations and performance of Superior could be materially adversely affected.

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 \$2,332,484 as of December 31, 2008.

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, 2008 are \$2,608 and the lease is due to expire June 30, 2010.

At December 31, 2008 we were leasing two facilities in Dallas, Texas which house our National Pawn operations. The two pawn locations are 7,388 square feet and 6,800 square feet, respectively. The leases are due to expire on May 31, 2013 and October 31, 2012 and require monthly lease payments in the amount of \$9,252 and 5,667, respectively.

CGDE operates in a leased 2,367 square foot facility in Mt. Pleasant, South Carolina. The lease expires in June 2010 and requires monthly lease payments in the amount of \$4,575.

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, auction, gallery and retail space. The lease for this facility expires March 31, 2013. The combined monthly rental rate is \$30,045 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.



## 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”. 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 by NASDAQ or actual closing sale prices 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 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:

| 2008           | High     | Low      |
|----------------|----------|----------|
| Fourth Quarter | \$ 2.600 | \$ 1.000 |
| Third Quarter  | 3.800    | 2.420    |
| Second Quarter | 5.040    | 2.920    |
| First Quarter  | 5.450    | 4.000    |
| 2007           | High     | Low      |
| Fourth Quarter | \$ 6.110 | \$ 3.470 |
| Third Quarter  | 4.490    | 3.050    |
| Second Quarter | 4.100    | 2.080    |
| First Quarter  | 3.000    | 2.380    |

On March 27, 2009, the closing sales price for our common stock was \$0.85 and there were 558 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, 2008:

| Plan Category  | Number of securities to be issued upon exercise of options, warrants & rights | Weighted average exercise price of outstanding options, warrants & rights | Number of securities remaining available for future issuance under equity compensation plans |
|--|---|---|--|
| Equity compensation plans approved by security holders     | 1,444,134   | \$ 2.34   | 700,000  |
| Equity compensation plans not approved by security holders | None  | —   | None   |
| Total  | 1,443,134   | \$ 2.34   | 700,000  |



## 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, 2003 to December 31, 2008. The comparison assumes \$100 was invested on December 31, 2003 and dividends, if any, were reinvested for all years ending December 31.

## Comparison of Five Year Cumulative Return

| Date: | DGSE<br>Common Stock | NASDAQ<br>Composite Index | S&P Retail Index | S&P 600 Small<br>Cap Index |
|-------|----------------------|---------------------------|------------------|----------------------------|
| 2003  | 100                  | 100                       | 100              | 100                        |
| 2004  | 83                   | 111                       | 136              | 142                        |
| 2005  | 59                   | 113                       | 134              | 142                        |
| 2006  | 75                   | 124                       | 146              | 172                        |
| 2007  | 490                  | 197                       | 143              | 199                        |
| 2008  | 42                   | 78                        | 73               | 73                         |

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 50,000 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.

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). 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, 2008.

**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 SFAS 153, “Exchanges of Nonmonetary Assets – An Amendment of APB Opinion No. 29.” 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.

Pawn loans (“loans”) are made with the collateral of tangible personal property for one month with an automatic 60-day extension period. Pawn service charges are recorded at the time of redemption at the greater of \$15 or the actual interest accrued to date. If the loan is not repaid, the principal amount loaned plus accrued interest (or the fair value of the collateral, if lower) becomes the carrying value of the forfeited collateral (“inventories”) which is recovered through sales to customers.

**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”.

**Inventories.** 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.

**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, including tradenames, were not written off due to new business generated from the Superior Galleries, Inc.'s acquired tradenames 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.** 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.

As of January 1, 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109, Accounting for Income Taxes ("FIN 48"). The adoption did not have a material impact on the Company's consolidated financial statements or effective tax rate and did not result in any unrecognized tax benefits.

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, 2008 and 2007, 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.

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## Results of Operations

### Comparison of the Years ended December 31, 2008 and 2007

Revenues increased by \$43,749,984 or 71.2%, in 2008. This increase was primarily the result of a \$24,296,000 or 114.9% increase in the sale of precious metals products, a \$17,254,000, or 89.2% increase in retail jewelry sales and a \$1,992,000, or 14.3% increase in rare coin sales. The increases in precious metals, rare coin and jewelry sales were due to a price increase in gold products (\$13,435,000), the acquisition of Superior Galleries (\$14,500,000) and Eulless Gold and Silver (\$8,600,000). Consumer loan service fees increased by \$242,440 in 2008 due to increased loans outstanding during the year. Cost of goods as a percentage of sales increased to 86.7% in 2008 from 84.1% in 2007 and gross margins decreased to 12.8% in 2008 from 15.9% in 2007. This decrease was due to the significant increase in precious metal sales which have a much lower margin than jewelry and rare coins revenues.

Selling, general and administrative expenses increased \$1,520,262 or 18.3% during the year. This increase was due to the start up of Superior Precious metals (\$692,000), Superior Estate Buyers (\$396,000), American Gold and Silver Exchange (\$160,000) and the opening of our second pawn shop during 2007 (\$440,000). Depreciation and amortization increased by \$236,975, or 95.6%, during 2008 due to additional assets being purchased through our recent acquisitions and depreciation on our new facility in Dallas, Texas. The increase in interest expense was due to the additional debt related to the Superior acquisition. The loss from discontinued operations was the result of the discontinuing the operations of our live auction segment and closing of our pay day loan stores.

At December 31, 2008, management believed the equity shares owned in three publicly traded stocks had declined on an other than temporary basis as these stocks are thinly traded and have market values of less than \$ .01 per share. As a result, these investments were written-off in the amount of \$115,992. this charge is included in other expense during 2008 net of interest earned during the year. Other income during 2007 was the result of the gain on the sale of the land and building at which our Dallas retail store and corporate headquarters were previously located.

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 methodologies 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 both 2008 and 2007. 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..

As a result, operating results from this business segment has been reclassified to discontinued operations for all periods presented

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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 11.4% and 23% for the year ended December 31, 2008 and 2007, respectively. The provisions for deferred taxes increased due to the impairment of goodwill in 2008

#### Comparison of the Years ended December 31, 2007 and 2006

Revenues increased by \$17,612,328, or 40.1%, in 2007. This increase was primarily the result of a \$4,901,000, or 30.1% increase in the sale of precious metals products, a \$2,819,000, or 17.1% increase in retail jewelry sales, and a \$9,224,000, or 196.4% increase in rare coin sales. The increases in precious metals, rare coin and jewelry sales were due to a 31.0% price increase in gold products (\$1,145,000) and the acquisition of Superior Galleries (\$9,765,000) and Eulless Gold and Silver (\$4,034,000). Consumer loan service fees increased by \$118,641 in 2007 due to increased loans outstanding during the year. Management fees in the amount of \$250,000 were derived from a management agreement between the Company and Superior Galleries prior to the acquisition. Cost of goods as a percentage of sales increased to 84.9% in 2007 from 84.3% in 2006 and gross margins decreased to 15.1% in 2007 from 15.7% in 2006. This decrease was due to the significant increase in precious metal sales which have a much lower margin than jewelry and rare coins revenues. Selling, general and administrative expenses increased by \$2,814,975, or 50.9%. This increase was primarily due to the acquisition of Superior Galleries and Eulless Gold and Silver. These acquisitions accounted for \$1,807,000 of the increase. In addition, administrative cost related to the start up of Superior Precious metals, Superior Estate Buyers, American Gold and Silver Exchange and the opening of our second pawn shop totaled \$408,000. Depreciation and amortization increased by \$110,543, or 99.4%, during 2007 due to additional assets being purchased through our recent acquisitions. The increase in interest expense was due to the additional debt related to the Superior acquisition. The loss from discontinued operations was the result of the closing of our pay day loan stores.

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

Other income during 2007 and 2006 were the result of interest earned during the years,.

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 and 2007. As a result, the operating results of the auction segment have been reclassified to discontinued operations for both 2008 and 2007. During 2008 and 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 2007 the auction segment incurred a pretax profit of \$54,952.

On July 13, 2007, we sold the loan balances from our American Pay Day Center locations for \$77,496 and discontinued operations in those locations. The receivables sold, including interest due, had a balance of \$120,573 at the time of the sale. The sales price was determined based on the age of the outstanding receivables. As a result of the sale and discontinued operations, we recognized a pretax loss of \$107,838 on the disposal and a pretax loss on discontinued operations of \$51,938 for the year ended December 31, 2007.

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 23% and 34% for the year ended December 31, 2007 and 2006, respectively.

#### Liquidity and Capital Resources

During the three years ended December 31, 2008 cash flows from operating activities totaled (\$989,143), (\$4,342,516), and 247,793, respectively. Cash used in operating activities during 2008 was primarily the result of an increase in inventory (\$3,077,051), a decrease in accounts payable and accrued expenses (\$668,000), and a decrease in federal income taxes payable (\$580,031). These uses of cash were partially offset by a decrease in trade receivables (\$1,473,133) and an increase in customer deposits. The increase in inventory and customer deposits was primarily the result of a 31% price increase in gold products and a significant increase in the demand for precious metal products. Cash used in operating activities during 2007 was primarily the result of an increase in inventory (\$928,838) and trade receivables (\$3,345,559). These increases were primarily the result of the acquisition of Superior Galleries, Inc. in May of 2007.

During the three years ended December 31, 2008 cash flows from investing activities totaled (\$1,222,178), (\$3,921,535) and (\$658,790). These uses of cash were primarily the result of building improvements (\$1,130,602) during 2008, the purchase of a new facility (\$3,780,554) during 2007 and cost related to the acquisition of Superior Galleries, Inc. (\$569,782) during 2007. During 2007 the Company sold its former corporate offices and store for cash in the amount of \$924,742.

During the three years ended December 31, 2008 cash flows from financing activities totaled \$1,919,205, \$7,590,314 and \$578,445, respectively. These sources of cash were the result of borrowings against the Stanford International Bank line of credit (\$2,500,000) during 2008, and (\$6,991,578) during 2007 and a mortgage loan on our new corporate office and store (\$2,441,992). During the three years ended December 31, 2008 the Company paid off debt in the amount of \$580,795, 1,982, and 668,908, respectively.

We expect capital expenditures to total approximately \$250,000 during the next twelve months. It is anticipated that these expenditures will be funded from working capital. As of December 31, 2008 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.

In December 2005, we entered into a revolving credit facility with Texas Capital Bank, N.A., which currently permits borrowings up to a maximum principal amount of \$4.03 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, 2008, approximately \$4.0 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 2009.

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.



Loan proceeds can only be used for customer loans inventory purchases and receivables consistent with specified loan policies and procedures and for permitted inter-company transactions. Permitted inter-company transactions are loans or dividends paid to us or our other subsidiaries. We guaranteed the repayment of these permitted inter-company transactions pursuant to a secured subordinated guaranty in favor of Stanford. In connection with the secured guarantee, Stanford and Texas Capital Bank, N.A., our primary lender, entered into an intercreditor agreement with us, and we entered into a subordination agreement with Superior, both of which subordinate Stanford's security interests and repayment rights to those of Texas Capital Bank. As of December 31, 2008, approximately \$9.2 million was outstanding under this credit facility and there were no intercompany transactions outstanding.

This credit facility matures on May 1, 2011, provided that in case any of several customary events of default occurs, Stanford may declare the entire principal amount of both loans due immediately and take possession and dispose of the collateral described below. An event of default includes, among others, the following events: failure to make a payment when due under the loan agreement; breach of a covenant in the loan agreement or any related agreement; a representation or warranty made in the loan agreement or related agreements is materially incorrect; a default in repayment of borrowed money to any person; a material breach or default under any material contract; certain bankruptcy or insolvency events; and a default under a third-party loan. Superior is obligated to repay the first revolving loan from the proceeds of the inventory or other collateral purchased with the proceeds of the loan.

The loans are secured by a first priority security interest in substantially all of Superior's assets, including inventory, accounts receivable, promissory notes, books and records and insurance policies, and the proceeds of the foregoing. In addition, pursuant to the limited secured guaranty and intercreditor arrangements described above, Stanford would have a second-order security interest in all of our accounts and inventory to the extent of intercompany transactions.

The loan agreement includes a number of customary covenants applicable to Superior, including, among others: punctual payments of principal and interest under the credit facility; prompt payment of taxes, leases and other indebtedness; maintenance of corporate existence, qualifications, licenses, intellectual property rights, property and assets; maintenance of satisfactory insurance; preparation and delivery of financial statements for us and separately for Superior in accordance with generally accepted accounting principles, tax returns and other financial information; inspection of offices and collateral; notice of certain events and changes; use of proceeds; notice of governmental orders which may have a material adverse effect, SEC filings and stockholder communications; maintenance of property and collateral; and payment of Stanford expenses.

In addition, Superior has agreed to a number of negative covenants in the loan agreement, including, among others, covenants not to: create or suffer a lien or other encumbrance on any collateral, subject to customary exceptions; incur, guarantee or otherwise become liable for any indebtedness, subject to customary exceptions; acquire indebtedness of another person, subject to customary exceptions and permitted inter-company transactions; issue or acquire any shares of its capital stock; pay dividends other than permitted inter-company transactions or specified quarterly dividends, or directors' fees; sell or abandon any collateral except in the ordinary course of business or consolidate or merge with another entity; enter into affiliate transactions other than in the ordinary course of business on fair terms or permitted inter-company transactions; create or participate in any partnership or joint venture; engage in a new line of business; pay principal or interest on subordinate debt except as authorized by the credit facility; or make capital expenditures in excess of \$100,000 per fiscal year

We have been informed that on February 19, 2009, a US district court placed SIBL under the supervision of a receiver and that the court enjoined SIBL's creditors and other persons from taking certain actions related to SIBL or its assets. In addition, on the same date, Antigua Financial Services Regulatory Commission appointed a Receiver for Stanford International Bank Ltd. This action was subsequently ratified by the High Court of Justice in Antigua and Barbuda. As a result of SIBL's current status, we do not believe that Superior will be able to borrow additional funds under either revolving loan, including any amounts Superior is obligated to repay to SIBL pursuant to the repayment provisions applicable to the first revolving note. We believe that certain terms of agreements entered into by us, Superior and/or SIBL and its affiliates in connection with our acquisition of Superior have been breached by SIBL or its affiliates, and we are evaluating available remedies, including but not limited to damages from responsible parties. While Superior does not currently require additional funds under the SIBL credit facility, should the need arise and Superior is unable to replace this credit facility the operations and performance of Superior could be materially adversely affected.

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.

| Contractual Cash Obligations      | Total         | Payments due by period |               |              |              |
|-----------------------------------|---------------|------------------------|---------------|--------------|--------------|
|                                   |               | 2009                   | 2010 - 2011   | 2012 - 2013  | Thereafter   |
| Notes payable                     | \$ 191,078    | \$ 191,078             | \$ —          | \$ —         | \$ —         |
| Long-term debt and capital leases | 15,910,737    | 4,195,025              | 9,403,271     | 469,381      | 1,843,060    |
| Operating Leases                  | 2,643,812     | 658,822                | 1,237,026     | 747,964      | —            |
| Total                             | \$ 18,745,627 | \$ 5,044,925           | \$ 10,640,297 | \$ 1,217,345 | \$ 1,843,060 |

In addition, we estimate that we will pay approximately \$950,000 in interest during the next twelve months.

#### 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 pawn lending 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 46 - 72 of this report).

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

None.

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## ITEM 9A. CONTROLS AND PROCEDURES.

### Disclosure Controls and procedures

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this annual report. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is (1) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (2) accumulated and communicated to our management, including our Chief Executive Officer, to allow timely decisions regarding required disclosure. Based on that evaluation, our management, including our Chief Executive Officer and our Chief Financial Officer, concluded that our disclosure controls and procedures were effective.

No changes in internal controls over financial reporting occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our 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, 2008 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control — Integrated Framework. Based on this assessment, management has concluded that, as of December 31, 2008, the Company's internal control over financial reporting was effective 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 based on such criteria.

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.

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 year ended December 31, 2008, we made a number of 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. These changes were made in response to our assessment of internal control over financial reporting for the year ended December 31, 2007. At that time and in conjunction with our auditors, management identified five material weaknesses in our internal control over financial reporting.

We identified two material weaknesses in our internal controls over cash. The Controller performed the bank reconciliation. There was no review of the bank reconciliation to ensure that cash per the bank statement agreed to the general ledger and that there were no long-term outstanding reconciling items. The CFO now reviews and approves the bank statements and reconciliations to remediate the control weakness. The second material weakness in the cash area related to internal controls around wire transfers. The CFO initiated and released most wire transfers without prior written or documented approval. The CEO, CFO, President or a Vice-President is now required to approve all wire transfers.

We also identified a material weakness in accounts payable. The quarterly accrual was not reviewed for accuracy nor was there a documented approval of the accounts payable accrual. There was a risk that liabilities may have been understated for the period reported. Management has taken corrective action to include a review of accrued liabilities by someone other than the person performing the accrual.

We also identified a material weakness in the approval process around changes made to the general ledger structure. During the reporting period there had been incomplete and undocumented supervisory review of changes and additions made to the general ledger accounts. Additionally, a material weakness was detected in the closing process. The review and approval of the major balance sheet account reconciliations were undocumented during the closing process. Management has taken corrective action to improve review procedures for changes made to the general ledger account structure, reconciliations and closing procedures. Management has also documented supervisory review and approval of these general ledger account changes, account reconciliations and closing procedures.

During the last fiscal quarter of 2008, there have been no 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.

### ITEM 9B. OTHER INFORMATION.

None.

## PART III

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

The names of our directors and certain information about them are set forth below:

| Name                           | Age | Position and Offices  | Year First Elected<br>Director or Appointed<br>Officer of Company |
|--------------------------------|-----|---|---|
| Dr. L.S. Smith, Ph.D.          | 62  | Chairman of the board of directors, chief executive officer, secretary and director | 1980  |
| William H. Oyster              | 56  | Director, president, and chief operating officer                                    | 1990  |
| Dr. William P. Cordeiro, Ph.D. | 65  | Director  | 1999  |
| Craig Alan-Lee                 | 52  | Director  | 2004  |
| David Rector                   | 62  | Director  | 2007  |

Dr. L.S. Smith has served as chairman of our board of directors, and as our chief executive officer and secretary, since 1980. Dr. Smith obtained a B.A. in political science from UCLA in 1967, an M.P.A. in public administration from UCLA in 1969, and an M.A., E.M.B.A. and Ph.D. in management from the Peter Drucker School of Management in 1981, 1984 and 1991, respectively.

Mr. William H. Oyster has served as a director, and as our president and chief operating officer, since January 1990. Mr. Oyster obtained an A.A.S. in nursing from Grayson County College in 1976.

Dr. William P. Cordeiro, Ph.D. has served as a director and an independent member and financial expert of our audit committee since June 1999. He has served as the director of the Smith School of Business and Economics, California State University – Channel Islands since June 1990. He has also been a partner of Bartik, Cordeiro & Associates, Inc., a management consulting firm, since January 1990. Dr. Cordeiro obtained a B.S. in biology from the University of San Francisco in 1966, an M.B.A. in finance from University of Southern California in 1969, an M.A. in management from Claremont Graduate School in 1982 and a Ph.D. in executive management from Claremont Graduate School in 1986.

Mr. Craig Alan-Lee has served as a director and independent member of our audit committee since December 2004. He has served as a senior loan consultant with Castle Funding, Inc., a mortgage loan company, since November 1994.

Mr. David Rector has served as a principal of David Stephen Group, which provides enterprise consulting services to emerging and developing companies in a variety of industries, since 1985. Prior to that, he served as president, chief executive officer and chief operating officer of Nanoscience Technologies, Inc., a development stage company engaged in the development and commercialization of DNA nanotechnology, from June 2004 to December 2006. He has also served as a director of Senesco Technologies, Inc., a research and development company focused on genetic technologies to improve commercial agriculture and to treat major medical conditions in humans, since 2002, and as a director of Superior Galleries, Inc. from May 2003 until May 2007. Mr. Rector obtained a B.S. in business from Murray State University in 1969.

There are no family relationships among any of our executive officers and directors.





## BOARD AND COMMITTEE MATTERS AND CORPORATE GOVERNANCE MATTERS

### Corporate Governance

We maintain a corporate governance page on our website which includes our Code of Business Conduct and Ethics, which includes a whistleblower protection policy and the charter for our audit committee of our board of directors. The corporate governance page can be found at [www.DGSE.com](http://www.DGSE.com) by clicking on "About Us" and then on the "DGSE Code of Business Conduct & Ethics" link.

Our policies and practices reflect corporate governance initiatives that are designed to be compliant with the listing requirements of NYSE Amex (formerly known as the American Stock Exchange) and the corporate governance requirements of the Sarbanes-Oxley Act of 2002, including:

- a majority of our board members are independent of our company and our management;
- all members of our audit committee are independent (within the meaning of the NYSE Amex listing standards);
- the independent members of our board meet regularly without the presence of management;
- we have a clear code of business conduct and ethics that applies to our principal executive officers, our directors and all of our employees, and is monitored by our audit committee;
- the charter of our audit committee clearly establishes its roles and responsibilities;
- we have a specific telephone number available to all employees; and
- our audit committee has procedures in place for the anonymous submission of employee complaints on accounting, internal accounting controls, or auditing matters.

### Board of Directors

Our board of directors currently consists of five directors including Dr. L.S. Smith (chairman), William H. Oyster, Dr. William P. Cordeiro, Craig Alan-Lee and David Rector. Two directors who were elected at our 2008 annual meeting, Richard M. Gozia and Mitchell T. Stoltz, resigned on March 28, 2009. Our board of directors did not appoint replacements for Mrs. Gozia and Stoltz. During 2008, our board of directors met four times and acted by unanimous written consent once. All members of our board were present at each meeting.

### Independence of the Board of Directors

Our company is a "controlled company" within the meaning of the NYSE Amex listing standards because our two largest stockholders, Dr. Smith and Stanford International Bank, who have entered into a corporate governance agreement with our company and have filed Schedule 13Ds with the SEC as a group, collectively hold approximately 64% of the voting power of our company. Accordingly, we are not obligated to comply with the independent director requirements of the NYSE Amex listing standards.

Pursuant to the corporate governance agreement, four of the directors which Stanford International Bank and Dr. Smith have the right to nominate must be "independent" as defined by the corporate governance agreement. The agreement defines as independent a nominee or director who, amongst other things, is an individual our board has determined, in the case of a director standing for re-election, or our board is reasonably likely to determine, in the case

of a new director nominee, to be independent within the meaning of the applicable listing rules of our principal trading market (currently NYSE Amex) and the applicable rules under the Exchange Act.

After review of all relevant transactions or relationships between each director, or any of his or her family members, and us, our senior management and our independent registered public accounting firm, our board of directors has affirmatively determined that three of our five directors — Dr. Cordeiro and Messrs. Alan-Lee and Rector — are "independent" within the meaning of the applicable NYSE Amex listing standards and our corporate governance agreement.

#### Executive Sessions

As required under the NYSE Amex listing standards, during the calendar year ended December 31, 2008, our independent directors met at least once in a regularly scheduled executive session at which only independent directors were present.

#### Stockholder Communications with the Board of Directors

We have adopted a formal process by which stockholders may communicate with our board of directors. Our board recommends that stockholders initiate any communications with the board in writing and send them in care of the investor relations department by mail to our principal offices at 11311 Reeder Road, Dallas, Texas 75229. This centralized process will assist the board in reviewing and responding to stockholder communications in an appropriate manner. The name of any specific intended board recipient should be noted in the communication. The board has instructed the investor relations department to forward such correspondence only to the intended recipients; however, the board has also instructed the investor relations department, prior to forwarding any correspondence, to review such correspondence and, in its discretion, not to forward certain items if they are deemed of a personal, illegal, commercial, offensive or frivolous nature or otherwise inappropriate for the board's consideration. In such cases, that correspondence will be forwarded to our corporate secretary for review and possible response. This information is also contained on our website at [www.DGSE.com](http://www.DGSE.com).

#### Information Regarding the Board of Directors Committees

During 2008, the only standing committee of our board of directors was the audit committee. Because our company is a "controlled company" under the NYSE Amex listing standards, our board is not obligated by those listing standards to have, and our board does not have, a nominating committee or a compensation committee, or any committees performing similar functions. The audit committee was established in accordance with Section 3(a)(58) of the Exchange Act. The charter has been adopted, and in some cases amended and restated to, among other things, reflect changes to the NYSE Amex listing standards and SEC rules adopted to implement provisions of the Sarbanes-Oxley Act of 2002. The charter can be found on our website at [www.DGSE.com](http://www.DGSE.com). The audit committee oversees our corporate accounting and financial reporting processes. Among other functions, the audit committee:

- oversees our financial reporting process on behalf of the board and reports the results of their activities to the board;
- sets the overall corporate "tone" for quality financial reporting, sound business risk practices, and ethical behavior;
- together with the board, evaluates and, where appropriate, replaces our independent registered public accounting firm;
- discusses with our independent registered public accounting firm their independence from management and our company and the matters included in the written disclosures required by the Independence Standards Board;



- annually reviews and recommends to the board the selection of our independent registered public accounting firm;
- reviews the interim financial statements with management prior to the filing of our quarterly reports on Form 10-Q and discusses the results of the quarterly review and any other matters required to be communicated to the audit committee by the independent registered public accounting firm under generally accepted auditing standards; and
- reviews with management and the independent registered public accounting firm the financial statements to be included in our annual report on Form 10-K (or the annual reports to our stockholders if distributed prior to the filing of a Form 10-K), including their judgment about the quality, not just acceptability, of accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements, and discusses the results of the annual audit and any other matters required to be communicated to the audit committee by the independent registered public accounting firm under generally accepted auditing standards.

The audit committee has the authority to retain special legal, accounting or other advisors or consultants as it deems necessary or appropriate to carry out its duties. The audit committee is currently composed of Dr. William P. Cordeiro, Ph.D. (chairman), David Rector and Craig Alan-Lee. The audit committee met four times during 2008.

Our board of directors annually reviews the NYSE Amex listing standards definition of independence for audit committee members and has determined that all members of our audit committee are independent (as independence is currently defined in Rule 4350(d)(2)(A) of the NYSE Amex listing standards). Our board of directors has determined that each member of the audit committee is able to read and understand fundamental financial statements, including our company's balance sheet, income statement and cash flow statement. Our board has also determined that Dr. Cordeiro and Mr. Rector each qualifies as an "audit committee financial expert," as defined in applicable SEC rules. In making such determinations, the board made a qualitative assessment of Dr. Cordeiro's and Mr. Rector's level of knowledge and experience based on a number of factors, including each individual's formal education and experience. See "Report of the Audit Committee."

The audit committee has discussed with Cornwell Jackson, our independent registered public accounting firm, the matters required to be discussed by the Statement on Auditing Standards No. 61 (Communication with Audit Committees). The audit committee has also received the written disclosures and the letter from Cornwell Jackson required by Independent Standards Board Standard No. 1 (Independence Discussion with Audit Committees) and the audit committee has discussed with Cornwell Jackson the independence of Cornwell Jackson as auditors of the Company. Based on the foregoing, the audit committee recommended to the board that our audited financial statements be included in our annual report on Form 10-K for the year ended December 31, 2008 for filing with the SEC.

#### Consideration of Director Nominees

Because our company is a "controlled company" for purposes of the NYSE Amex listing standards, our board is not required by those listing standards either to have a nominating committee or to have director nominees selected, or recommended for the board's selection, either by a majority of the independent directors or a nominating committee composed solely of independent directors. Our board has not established a standing nominating committee or a charter with respect to the nominating process. Instead, our entire board is involved in the director nomination process.

Our board is of the view that such a committee is unnecessary given that almost all directors are nominated pursuant to the corporate governance agreement and the fact that all directors are considered by and recommended to our stockholders by the full board, which is comprised of a majority of independent directors. If our board established

such a committee, its membership would consist of the independent directors or a subset of them. To date, all director nominees recommended to the stockholders have been identified by stockholders, current directors or management, and we have never engaged a third party to identify director candidates.

## Director Qualifications

Our board believes that new candidates for director should have certain minimum qualifications, including having the knowledge, capabilities, experience and contacts that complement those currently existing within our company; having the ability to meet contemporary public company board standards with respect to general governance; stewardship, depth of review, independence, financial certification, personal integrity and responsibility to stockholders; a genuine desire and availability to participate actively in the development of our future; and an orientation toward maximizing stockholder value in realistic time frames. The board also considers such factors as ability to contribute strategically through relevant industry background and experience; independence from our company and current board members; and a recognizable name that would add credibility and value to our company and its stockholders. The board may modify these qualifications from time to time.

## Evaluating Nominees for Director

Most of our nominees for election as directors are nominated pursuant to the corporate governance agreement. With respect to these nominees, our board reviews candidates to ensure they are "independent", as defined in the corporate governance agreement. Under that agreement, a nominee is "independent" if he or she (i) is not and has never been an officer or employee of DGSE or Stanford International Bank or their respective affiliates or associates, or of any entity that derived 5% or more of its revenues or earnings in any of its three most recent fiscal years from transactions involving DGSE or Stanford International Bank or any affiliate or associate of any of them, (ii) has no affiliation, compensation, consulting or contracting arrangement with DGSE or Stanford International Bank or their respective affiliates or associates or any other entity such that a reasonable person would regard such individual as likely to be unduly influenced by management of DGSE or Stanford International Bank, respectively, or their respective affiliates or associates, and (iii) is a director our board has determined, or a nominee our board is reasonably likely to determine, to be "independent" within the meaning of the applicable listing rules of our principal trading market (currently the NYSE Amex market) and Section 10A(m)(3) of the Exchange Act and Rule 10A-3(b)(1) promulgated there-under.

With respect to nominees not nominated pursuant to the corporate governance agreement, our board reviews candidates for director nominees in the context of the current composition of our board, our operating requirements and the long-term interests of our stockholders. In conducting this assessment, our board currently considers, among other factors, diversity, age, skills, and such other factors as it deems appropriate given the current needs of our board and our company, to maintain a balance of knowledge, experience and capability. In the case of incumbent directors whose terms of office are set to expire, our board reviews the directors' overall service to our company during his or her term, including the number of meetings attended, level of participation, quality of performance, and any other relationships and transactions that might impair the director's independence. In the case of new director candidates, our board also determines whether the nominee must be independent, which determination is based upon applicable NYSE Amex listing standards, applicable SEC rules and regulations and the advice of counsel, if necessary. Our board then uses its network of contacts to compile a list of potential candidates, but may also engage, if it deems appropriate, a professional search firm. Our board conducts any appropriate and necessary inquiries into the backgrounds and qualifications of possible candidates after considering the function and needs of our board. Our board meets to discuss and consider such candidates' qualifications and then selects a nominee for recommendation to our stockholders by majority vote.

To date, our board has not paid a fee to any third party to assist in the process of identifying or evaluating director candidates. To date, our board has not rejected a timely director nominee from a stockholder or group of stockholders that beneficially owned, in the aggregate, more than 5% of our voting stock.





## Stockholder Nominations

The board applies the same guidelines (described above) to stockholder nominees as applied to nominees from other sources. Any stockholder who wishes to recommend a prospective director nominee for the board's consideration may do so by giving the candidate's name and qualifications in writing to our chairman of the board at our principal executive offices at 11311 Reeder Road, Dallas, Texas 75229. The proposing stockholder should also include his or her contact information and a statement of his or her share ownership, as well as any other information required by our bylaws.

## Code Of Business Conduct And Ethics

We have adopted a "Code of Business Conduct and Ethics" that applies to all employees, including our executive officers. A copy of our Code of Business Conduct and Ethics is posted on our internet site at [www.DGSE.com](http://www.DGSE.com). In the event we make any amendments to, or grant any waivers of, a provision of the Code of Business Conduct and Ethics that applies to the principal executive officer, principal financial officer, or principal accounting officer that requires disclosure under applicable SEC rules, we intend to disclose such amendment or waiver and the reasons therefor on a Form 8-K or on our next periodic report.

## EXECUTIVE OFFICERS

Set forth below is information regarding our executive officers. All executive officers serve at the pleasure of our board of directors.

| Name                | Age | Position   |
|---------------------|-----|--|
| Dr. L.S. Smith*     | 62  | Chairman of the board, chief executive officer and president |
| William H. Oyster*  | 56  | President and chief operating officer                        |
| John Benson         | 63  | Chief financial officer                                      |
| S. Scott Williamson | 51  | Executive vice president – consumer finance                  |

\* Biographical information about Dr. Smith and Mr. Oyster is set forth in the director information above.

John Benson joined our company in December 1992 as chief financial officer. Between January and May 2007, Mr. Benson served on the board of directors of Superior Galleries, Inc. Mr. Benson obtained his BBA from Texas A&M University in 1968 and is a certified public accountant in the State of Texas.

S. Scott Williamson joined our company as executive vice president – consumer finance and became president of our subsidiary, American Pay Day Centers, Inc. in May 2004. Between 2002 and 2004, Mr. Williamson served as president of Texas State Credit Co., a finance company with 63 locations. From 2001 to 2002, Mr. Williamson served as chief financial officer for Westgate Fabrics, LLC, a distributor of decorative fabrics. Before that, Mr. Williamson served as an executive vice president of operations for First Cash Financial Services, Inc., a national markets finance company. Mr. Williamson has also served on the board of directors of Superior Galleries, Inc. from January 2007 to May 2007. Mr. Williamson obtained his B.B.A. in accounting from the University of Oklahoma in 1980.

## ITEM 11. EXECUTIVE COMPENSATION.

## Executive Compensation

The following information is furnished with respect to each of our most highly compensated executive officers whose cash compensation from us and our subsidiaries during our last fiscal year exceeded \$100,000.

## Summary Compensation Table

| Name and Principal Position | Year | Salary<br>(\$) | Bonus<br>(\$) | All Other<br>Compensation<br>(\$) | Total<br>(\$) |
|-----------------------------|------|----------------|---------------|-----------------------------------|---------------|
| Dr. L.S. Smith              | 2008 | 425,000        | 191,500       | 30,000(1)                         | 646,500       |
| Chief executive officer     | 2007 | 331,277        | 312,500       | 30,000(1)                         | 673,777       |
| John Benson                 | 2008 | 175,000        | –             | –                                 | 175,000       |
| Chief financial officer     | 2007 | 150,898        | –             | –                                 | 150,898       |
| William H. Oyster           | 2008 | 250,000        | 62,500        | –                                 | 312,500       |
| President                   | 2007 | 214,596        | 112,500       | –                                 | 327,096       |

(1) In fiscal year 2007 and 2008, Dr. Smith was provided a monthly automobile allowance and a \$2,000 per month home office allowance.

## Grants of Plan-Based Awards

We did not grant any awards under any plan in fiscal year 2008 and 50,000 shares were granted to our non-employee directors under our 2006 plan during the fiscal year 2007.

## Outstanding Equity Awards at Fiscal Year-End

The following table summarizes unexercised options to purchase shares of our common stock and equity plan awards outstanding at December 31, 2008 for each executive officer identified in the Summary Compensation Table above. All options were fully vested and exercisable at the time of grant and expire 180 days after termination of service:

| Name and Principal Position | Number of Securities<br>Underlying Unexercised<br>Options<br>(#)<br>Exercisable | Option Exercise Price<br>(\$) |
|-----------------------------|---|-------------------------------|
| Dr. L.S. Smith              | 577,777   | 2.25                          |
| Chief executive officer     | 267,857   | 1.12                          |
| John Benson                 | 50,000  | 1.625                         |
| Chief financial officer     | 25,000  | 2.25                          |
|                             | 25,000  | 2.125                         |
|                             | 50,000  | 2.25                          |
| William H. Oyster           | 100,000   | 2.25                          |
| President                   | 50,000  | 2.125                         |
|                             | 100,000   | 2.25                          |

Option Exercises and Stock Vested

No executive officer identified in the Summary Compensation Table above exercised an option in fiscal year 2008, and no shares of stock vested with respect to any of those executive officers.

#### Pension Benefits

We do not have any plan which provides for payments or other benefits at, following, or in connection with retirement.

#### Nonqualified Deferred Compensation

We do not have any defined contribution or other plan which provides for the deferral of compensation on a basis that is not tax-qualified.

#### Employment Agreements

**Smith Employment Agreement.** The employment agreement for Dr. Smith sets forth the terms of his employment with us as chairman and chief executive officer. The agreement has an initial 3-year term, and will be automatically renewed thereafter for successive one-year terms unless either party provides at least 120 days notice not to renew. It provides for a base annual salary of at least \$425,000. In addition, it provides for an annual bonus in an amount not less than one-half of his annual salary, payable on each January 31 in respect of the prior calendar year, with half of the payment being contingent upon our stock price having increased at least 10% during that calendar year. For purposes of the 2007 calendar year, the first day was deemed to be May 30, 2007, the date of the closing of the acquisition of Superior, and the 10% increase requirement will be prorated accordingly. In addition, Dr. Smith will be entitled to life insurance of \$2,000,000, disability insurance equal to half of his base salary, medical insurance and other benefits.

**Oyster Employment Agreement.** The new employment agreement for Mr. Oyster sets forth the terms of his employment with us as president and chief operating officer. The agreement has an initial 5-year term, and will be automatically renewed thereafter for successive one-year terms unless either party provides at least 120 days notice not to renew. It provides for a base annual salary of at least \$250,000. In addition, it provides for an annual bonus in an amount not less than one-half of his annual salary, payable on each April 30 in respect of the prior calendar year, with half of the payment being contingent upon our EBIT (earnings before interest and taxes) having increased at least 6% during that calendar year. In addition, Mr. Oyster will be entitled to life insurance of \$1,000,000, disability insurance equal to half of his base salary, medical insurance and other benefits.

**Benson Employment Agreement.** The new employment agreement for Mr. Benson sets forth the terms of his employment with us as chief financial officer. The agreement has an initial 2-year term. It provides for a base annual salary of \$175,000 and an annual bonus to be determined by our board of directors. Upon the termination of his employment, Mr. Benson will be entitled to, among other things, (1) in case of termination by DGSE during the initial term other than for cause, base salary for the remainder of the initial term plus six months; and (2) in case of termination by DGSE after the initial term other than for cause, three months of annual base salary.

#### Potential Payments Upon Termination Or Change-In-Control

Under the employment agreements of Dr. Smith and Mr. Oyster, if the executive were to be terminated due to an illness, injury or other incapacity which prevents him from carrying out or performing fully the essential functions of his duties for a period of 180 consecutive days, or due to his death, the executive (or his legal representative) would be entitled to receive his salary for a period of one year following the date of termination and the pro rata portion of this bonus for the prior calendar year. If Dr. Smith would have been terminated for either reason on January 1, 2008 and his new employment agreement had then been in effect, we would have been obligated to pay him \$425,000 in 26 bi-weekly installments of \$16,346 each. If Mr. Oyster would have been terminated for either reason on January 1, 2008 and his new employment agreement had then been in effect, we would have been obligated to pay him \$250,000

in 26 bi-weekly installments of \$9,615 each.

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In the event either executive were to be terminated for “cause”, he would be entitled to the pro rata share of the bonus paid to him for the calendar year immediately preceding his termination. If either executive would have been terminated for “cause” on January 1, 2008 and his new employment agreement had then been in effect, we would not have been obligated to pay him any additional severance pay.

In the event either executive were to be terminated other than for “cause”, or if either executive resigns for “good reason”, he would be entitled to receive a lump sum payment of (i) his base salary for the remainder of the current year, plus (ii) the maximum bonus he would have been entitled to receive for the current year, plus (iii) three years salary based on the salary then in effect. If Dr. Smith would have been terminated other than for “cause” or resigned for “good reason” on January 1, 2008 and his new employment agreement had then been in effect, we would have been obligated to pay him a lump sum payment of \$1.91 million. If Mr. Oyster would have been terminated other than for “cause” or resigned for “good reason” on January 1, 2008 and his new employment agreement had then been in effect, we would have been obligated to pay him a lump sum payment of \$1.13 million.

In the event either executive were to resign other than for “good reason”, he would be entitled to receive a lump sum payment of (i) his base salary for the remainder of the current year, plus (ii) a pro rata share of the maximum bonus he would have been entitled to receive for the current year, plus (iii) one year salary based on the salary then in effect. If Dr. Smith would have resigned other than for “good reason” on January 1, 2008 and his new employment agreement had then been in effect, we would have been obligated to pay him a lump sum payment of \$850,000. If Mr. Oyster would have resigned other than for “good reason” on January 1, 2008 and his new employment agreement had then been in effect, we would have been obligated to pay him a lump sum payment of \$500,000.

In addition, in the event of the termination of Dr. Smith’s employment, DGSE would be required to maintain medical health benefits for Dr. Smith and his wife until both are covered by a comparable health insurance plan provided by a subsequent employer or their earlier death. This obligation has an estimated present cost to us of \$32,100 (assuming payment for a 36-month period). In the event of the termination of Mr. Oyster’s employment, we would be required to maintain medical health benefits for Mr. Oyster and his wife for a period of 18 months or, if earlier, until both are covered by a comparable health insurance plan provided by a subsequent employer. This obligation has an estimated cost to us of \$17,200.

In the event of the termination of either executive’s employment, other than for termination by the executive for “good reason”, the executive may not for a period of two years compete with us in the state in which we conduct business during the employment term.

For purposes of the two executives’ new employment agreements:

- “cause” is defined as (i) conviction of the executive for a felony involving dishonest acts during the term of the agreement, (ii) any “willful” and material misapplication by the executive of company funds, or any other material act of dishonesty committed by him, or (iii) the executive’s “willful” and material breach of the agreement or “willful” and material failure to substantially perform his duties thereunder (other than a failure resulting from mental or physical illness) after written demand for substantial performance is delivered by the our board of directors which specifically identifies the manner in which the board believes the executive has not substantially performed his duties and the executive fails to cure his nonperformance. We are obligated to provide the executive 30 days written notice setting forth the specific reasons for its intention to terminate the executive for cause and an opportunity for the executive to be heard before our board of directors, and to deliver to the executive a notice of termination from the board of directors stating that a majority of the board found, in good faith, that the executive had engaged in the “willful” and material conduct referred to in the notice;
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an act or failure to act is “willful” if done, or omitted to be done, by the executive in bad faith and without reasonable belief that his action or omission was in our best interest;

- “good reason” is defined as (i) a change in the executive’s status or positions with us that, in his reasonable judgment, represents a demotion, (ii) the assignment to the executive of any duties or responsibilities that, in the executive’s reasonable judgment, are inconsistent with his existing status or position, (iii) layoff or involuntary termination of the executive’s employment, except in connection with the termination of the executive’s employment for “cause” or as a result of his retirement, disability or death, (iv) a reduction by us in the executive’s base salary, (v) any “change in control” occurring more than one year after the effective date of the agreement, (vi) the failure by us to continue in effect any employee benefit plan in which the executive is participating at the effective date of the agreement, other than as a result of the normal expiration of the plan in accordance with its terms, except to the extent that we provide the executive without substantially equivalent benefits, (vii) the imposition of any requirement that the executive be based outside the Dallas-Fort Worth metropolitan area, (viii) our failure to obtain the express assumption of the agreement by any successor, or (ix) any violation by us of any agreement (including the new employment agreement) between us and the executive; and
- “change in control” is defined as (A) any person or group becomes the beneficial owner of shares representing 20% or more of the combined outstanding voting power of our company, (B) in any 12-month period, our directors at the beginning of that period cease to constitute a majority of our board of directors and a majority of the initial directors still in office neither elected all of the new directors nor nominated them all for election by our stockholders, or (C) a person or group acquires in any 12-month period gross assets of our company constituting at least 50% of the fair market value of all our gross assets.

Under the new employment agreement of Mr. Benson, if DGSE were to terminate Mr. Benson’s employment during the initial 2-year term, he would be entitled to receive a lump sum payment of (i) his base salary for the remainder of the initial term, plus (ii) six months salary based on the salary then in effect. If Mr. Benson would have been terminated by us on January 1, 2008 and his new employment agreement had then been in effect, we would have been obligated to pay him a lump sum payment of \$437,500. If we were to terminate Mr. Benson’s employment after the initial 2-year term, he would be entitled to receive a lump sum payment of three months salary based on his salary then in effect.

In the event Mr. Benson were to resign upon not less than 30 days notice to us, and we were immediately to relieve Mr. Benson of his duties, he would be entitled to receive a lump sum payment of his salary until the date his resignation were to be effective. If Mr. Benson would have delivered a resignation notice to us on January 1, 2008 indicating his decision to resign on March 1, 2008, his new employment agreement had then been in effect and we would have immediately relieved him of his duties and terminated the employment agreement, we would have been obligated to pay him a lump sum payment of \$29,000.

#### Compensation of Directors

The following table sets forth information concerning the compensation of our directors during our 2008 fiscal year, except for directors who are also named executive officers and whose compensation is reflected in the Summary Compensation Table.

| Name                           | Fees Earned or |               | Total    |
|--------------------------------|----------------|---------------|----------|
|                                | Paid in Cash   | Option Awards |          |
| Dr. William P. Cordeiro, Ph.D. | \$ 8,167       | 10,000(1)     | \$ 8,167 |
| Craig Alan-Lee                 | \$ 7,667       | 10,000(2)     | \$ 7,667 |
| David Rector                   | \$ 6,167       | 10,000(3)     | \$ 6,167 |

(1) Dr. Cordeiro has been granted options to purchase 32,500 shares of DGSE’s common stock at an exercise price equal to the then fair market value of DGSE’s common stock.





(2) Mr. Alan-Lee has been granted an option to purchase 15,000 shares of DGSE's common stock at an exercise price equal to the then fair market value of DGSE's common stock.

(2) Mr. Rector has been granted an option to purchase 10,000 shares of DGSE's common stock at an exercise price equal to the then fair market value of DGSE's common stock.

Directors who are also employees of DGSE do not receive any compensation for serving as a director or as a member of a committee of the board of directors.

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

The following table sets forth certain information regarding the ownership of our common stock as of June 26, 2009 by: (i) each director; (ii) each of the named executive officers reflected in the Summary Compensation Table; (iii) all our executive officers and directors as a group; and (iv) all those known by us to be beneficial owners of more than five percent of our common stock.

| Name and Address of Beneficial Owner   | Amount and Nature of Beneficial Ownership(1) | Percent of Class(1) |
|--|--|---------------------|
| Dr. L. S. Smith, Ph.D.<br>Director, chairman and chief executive officer<br>519 Interstate 30, #243<br>Rockwall, Texas 75087 | 6,616,438(2), (8)                            | 67.3%               |
| William H. Oyster<br>Director, president and chief operating officer(3)  | 290,115(4)                                   | 3.0%                |
| John Benson<br>Chief financial officer(3)  | 161,500(5)                                   | 1.6%                |
| S. Scott Williamson<br>Executive vice president(3)   | 20,000(6)                                    | *                   |
| Dr. William P. Cordeiro, Ph.D.<br>Director<br>P.O. Box 6010<br>Malibu, California 90264                                      | 27,500(7)                                    | *                   |
| Craig Alan-Lee<br>Director<br>11230 Dilling Street<br>North Hollywood, California 91602                                      | 325,000(8), (9)                              | 3.3%                |
| David Rector<br>Director(3)  | 5,462(10)                                    | *                   |
| Stanford International Bank Ltd.<br>No. 11 Pavilion Drive<br>St. John's, Antigua, West Indies                                | 6,616,438(11)                                | 67.3%               |
| All directors and officers<br>as a group (8 individuals)   | 7,446,015(12)                                | 75.7%               |

(1) Based upon information furnished to us by the directors and executive officers or obtained from our stock transfer books showing 9,833,635 shares of common stock outstanding as of June 30, 2009. We are informed that these

persons hold the sole voting and dispositive power with respect to the common stock except as otherwise stated in the footnotes below. For purposes of computing “beneficial ownership” and the percentage of outstanding common stock held by each person or group of persons named above as of July 3, 2009, any security which such person or group of persons has the right to acquire within 60 days after such date is deemed to be outstanding for the purpose of computing beneficial ownership and the percentage ownership of such person or persons, but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person. A “\*” indicates less than one percent.

- (2) Includes 577,777 and 267,857 shares currently exercisable under stock options with exercise prices of \$2.25 and \$1.12 per share, respectively; 493,282 shares subject to proxies pursuant to which Dr. L.S. Smith holds sole voting power; and 3,390,727 shares subject to a corporate governance agreement with Stanford International Bank Ltd., which we refer to as Stanford, and us. The corporate governance agreement entitles Stanford and Dr. Smith to each nominate two independent directors to our board of directors and entitles Dr. Smith and Mr. Oyster to be nominated to our board for so long as he remains an executive officer of our company. Pursuant to this agreement, Dr. Smith has shared voting power with respect to the 3,390,727 shares beneficially owned by Stanford. Dr. Smith disclaims beneficial ownership of the 3,884,009 shares subject to the proxies or the corporate governance agreement.
- (3) The address for Messrs. Oyster, Benson, Williamson and Rector is 11311 Reeder Road, Dallas, Texas 75229.
- (4) Includes 250,000 shares currently exercisable under stock options with an average exercise price of \$2.23 per share. In addition, W.H. Oyster has granted Dr. L.S. Smith a proxy to vote 38,615 of his currently outstanding shares.
- (5) Includes 150,000 shares currently exercisable under stock options with an average exercise price of \$2.02 per share. In addition, John Benson has granted Dr. L.S. Smith a proxy to vote his 11,500 shares currently outstanding.
- (6) Includes 20,000 shares currently exercisable under stock options with an exercise price of \$2.43 per share.
- (7) Includes 22,500 shares currently exercisable under stock options with an exercise price of \$2.47 per share and 5,000 shares owned by Bartik, Cordeiro & Associates, as to which Dr. Cordeiro has shared voting and investment powers.
- (8) Craig Alan-Lee has granted Dr. L.S. Smith a proxy to vote his 320,000 shares currently outstanding.
- (9) Includes 5,000 shares currently exercisable under a stock option with an exercise price of \$2.82 per share.
- (10) Includes 2,731 and 2,731 shares currently exercisable under stock options with an exercise price of \$7.32 and \$10.07, respectively, per share.
- (11) Includes 422,817 shares currently issuable upon the exercise of stock purchase warrants with an exercise price of \$1.89 per share and 3,164,665 shares beneficially owned by Dr. Smith subject to the corporate governance agreement. James M. Davis is the chief financial officer of Stanford. R. Allen Stanford is a director and, indirectly, the principal shareholder of Stanford. Both Messrs. Stanford and Davis share voting and dispositive power with respect to shares held by Stanford. Pursuant to the corporate governance agreement, Stanford has shared voting power with respect to the 3,164,665 shares beneficially owned by Dr. Smith. Stanford disclaims beneficial ownership of the 3,164,665 shares subject to the corporate governance agreement.
- (12) Includes 577,777, 267,857, 250,000, 150,000, 45,000, 10,000 and 20,000 shares currently exercisable under stock options with an exercise price or average price, as the case may be, of \$2.25, \$1.12, \$2.23, \$2.02, \$2.47, \$2.82 and \$2.43, respectively, per share, and 493,282 shares subject to proxies granting Dr. L.S. Smith sole voting powers.

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

#### Transactions with Related Persons

Our company has not entered into any transaction since the beginning of our 2008 fiscal year required to be disclosed in this report, other than transactions described elsewhere herein.

#### Review, Approval or Ratification of Transactions with Related Persons

We have adopted a written policy regarding the review, approval or ratification of transactions with designated related persons, which is available from our website, [www.DGSE.com](http://www.DGSE.com). In accordance with the policy, our audit committee or the chairperson of our audit committee reviews transactions in which the amount involved exceeds \$120,000 and in which any related person had, has, or will have a direct or indirect material interest. In general, the policy applies to the following categories of related persons: directors, nominees, executive officers, and stockholders owning five percent or more of our outstanding stock, and their respective immediate family members. The committee or chairperson approve or ratify only those transactions which are in, or not inconsistent with, the best interests of our company and our stockholders. The audit committee chairperson reviews and approves or ratifies transactions when it is not practicable or desirable to delay review of a transaction until our audit committee can meet. The chairperson reports any transactions with related persons he has approved or ratified to our audit committee and any transactions with related persons he or the audit committee has approved or ratified to our board. Our audit committee will annually review any previously approved or ratified related person transactions that remain ongoing.

### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table presents fees billed by Cornwell Jackson for professional services rendered for the fiscal years ended December 31, 2008 and 2007.

|                    | 2008       | 2007       |
|--------------------|------------|------------|
| Audit Fees (1)     | \$ 84,459  | \$ 54,785  |
| Audit Related Fees | 3,318      | 3,600      |
| Tax Fees(2)        | 17,883     | 12,906     |
| All Other Fees (3) | 19,926     | 35,454     |
| Total              | \$ 125,586 | \$ 106,745 |

(1) Represents the aggregate fees billed by Cornwell Jackson for professional services rendered for the audit of our annual financial statements for the fiscal year indicated above.

(2) Represents the aggregate fees billed by Cornwell Jackson for professional services rendered in various tax matters during 2008 and 2007.

(3) Represents the aggregate fees billed by Cornwell Jackson for professional services rendered for the review of quarterly reports on Form 10-Q for the periods ended March 31, June 30 and September 30 for the fiscal years indicated above. During 2007, Cornwell Jackson provided additional professional services for due diligence requirements for the Superior Galleries acquisition.

## 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,  |              | x                         | 8-K    | May 31, 2007        | 3.1         |

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dated May 22, 2007

|     |                                      |   |        |                 |     |
|-----|--------------------------------------|---|--------|-----------------|-----|
| 3.9 | By-laws, dated March 2,<br>1992      | × | 8-A12G | June 23, 1999   | 3.7 |
| 4.1 | Specimen Common Stock<br>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 11311 Reeder Road  | × | 8-K    | July 11, 2007   | 10.2 |



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 |
| 10.20 | Form of Warrants   | × | 8-K | May 31, 2007    | 99.4 |

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

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|       |  |   |     |              |      |
|-------|--|---|-----|--------------|------|
| 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 |
| 23.1  | Consent of Cornwell Jackson  | x |     |              |      |
| 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.



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: March 31, 2009  
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.

By: /s/ L. S. Smith                      Dated: March 31, 2009  
L.S Smith  
Chairman of the Board,  
Chief Executive Officer and  
Secretary

By: /s/ W. H. Oyster                      Dated: March 31, 2009  
W. H. Oyster  
Director, President and  
Chief Operating Officer

By: /s/ John Benson                      Dated: March 31, 2009  
John Benson  
Chief Financial Officer  
(Principal Accounting  
Officer)

By: /s/ William P. Cordeiro              Dated: March 31, 2009  
Director

By: /s/ Craig Allan-Lee                      Dated: March 31, 2009  
Director

By: /s/Mitch Stoltz                      Dated: March 31, 2009  
Director

By: /s/David Rector                      Dated: March 31, 2009  
Director



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, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for the years ended December 31, 2008, 2007, and 2006. 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, 2008 and 2007, and the consolidated results of operations and its cash flows for the years ended December 31, 2008, 2007, and 2006 in conformity with accounting principles generally accepted in the United States of America.

/s/ Cornwell Jackson Advisors  
Plano, Texas  
March 31, 2009



## DGSE COMPANIES, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

December 31,  
2008                      2007

| ASSETS  |               |               |
|---|---------------|---------------|
| Current Assets:   |               |               |
| Cash and cash equivalents   | \$ 244,429    | \$ 536,548    |
| Trade receivables   | 2,326,337     | 3,249,229     |
| Inventories   | 16,052,833    | 12,975,777    |
| Prepaid expenses  | 533,318       | 459,486       |
| Prepaid federal income tax  | 639,372       | 59,341        |
| Current assets of discontinued operations   | 900,306       | 1,290,245     |
| Total current assets  | 20,696,595    | 18,570,631    |
| Marketable securities – available for sale  | -             | 61,769        |
| Property and equipment, net   | 4,868,305     | 4,193,869     |
| Deferred income taxes   | 1,908,032     | 1,805,205     |
| Goodwill  | 837,117       | 8,952,181     |
| Intangible assets   | 2,492,673     | 2,521,340     |
| Other assets  | 235,917       | 309,836       |
| Non-current assets of discontinued operations   | 305,275       | 444,383       |
|   | \$ 31,343,915 | \$ 36,859,214 |
| LIABILITIES   |               |               |
| Current Liabilities:  |               |               |
| Notes payable   | \$ 191,078    | \$ 187,467    |
| Current maturities of long-term debt  | 599,972       | 501,631       |
| Line of credit  | 3,595,000     | -             |
| Accounts payable – trade  | 734,906       | 1,069,194     |
| Accrued expenses  | 647,536       | 1,018,003     |
| Customer deposits   | 1,230,991     | 315,437       |
| Current liabilities of discontinued operations  | 33,144        | -             |
| Total current liabilities   | 7,032,627     | 3,091,732     |
| Long-term debt, less current maturities   | 11,715,765    | 13,489,901    |
|   | 18,748,392    | 16,581,633    |
| STOCKHOLDERS' EQUITY  |               |               |
| Common stock, \$.01 par value; 30,000,000 shares authorized; 9,833,635 and 9,490,357 shares issued and outstanding at the end of each period in 2008 and 2007 |               |               |
|   | 98,337        | 94,904        |
| Additional paid-in capital  | 18,541,662    | 18,473,234    |
| Accumulated other comprehensive loss  | -             | (97,288)      |
| Retained earnings   | (6,044,476)   | 1,806,731     |
|   | 12,595,523    | 20,277,581    |

\$ 31,343,915 \$ 36,859,214

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

DGSE COMPANIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

|   | Years ended December 31, |               |               |
|---|--------------------------|---------------|---------------|
|   | 2008                     | 2007          | 2006          |
| <b>Revenue</b>  |                          |               |               |
| Sales   | \$ 104,670,207           | \$ 60,912,663 | \$ 43,668,973 |
| Consumer loan service charges   | 548,853                  | 306,413       | 187,772       |
| Management fees   | -                        | 250,000       | —             |
|   | 105,219,060              | 61,469,076    | 43,856,745    |
| <b>Costs and expenses</b>   |                          |               |               |
| Cost of goods sold  | 91,237,578               | 51,711,643    | 36,809,910    |
| Selling, general and administrative expenses  | 9,841,806                | 8,321,544     | 5,529,314     |
| Depreciation and amortization   | 484,832                  | 247,857       | 111,259       |
| Impairment of goodwill  | 7,337,443                | —             | —             |
| Gain of sale of property  | —                        | (579,447)     | —             |
|   | 108,901,659              | 59,701,597    | 42,450,483    |
| Operating income  | (3,682,599)              | 1,767,479     | 1,406,262     |
| <b>Other (income) expense</b>   |                          |               |               |
| Other income  | 87,693                   | 26,782        | (16,534)      |
| Interest expense  | 902,897                  | 675,199       | 408,269       |
| Earnings before income taxes  | (4,673,189)              | 1,065,498     | 1,014,527     |
| Income tax expense  | 1,048,997                | 250,056       | 348,188       |
| Net earnings (loss) from continuing operations  | (5,721,286)              | 815,442       | 666,339       |
| <b>Discontinued operations:</b>   |                          |               |               |
| Loss (Gain) from discontinued operations (less applicable income tax benefit (expense) of \$1,097,231, (\$18,556) and \$28,382, respectively) | 2,129,920                | (21,207)      | 55,094        |
| Loss on disposal of discontinued operations (less applicable income tax benefit of \$0, \$26,208 and \$0, respectively)                       | —                        | 81,630        | —             |
| Net earnings  | \$ (7,851,207)           | \$ 755,019    | \$ 611,245    |
| <b>Earnings per common share</b>  |                          |               |               |
| <b>Basic</b>  |                          |               |               |
| From continuing operations  | \$ (.55)                 | \$ .09        | \$ .14        |
| From discontinued operations  | (.25)                    | (.01)         | (.02)         |
| Net earnings per common share   | \$ (.80)                 | \$ .08        | \$ .12        |
| <b>Diluted</b>  |                          |               |               |
| From continuing operations  | \$ (.55)                 | \$ .08        | \$ .13        |
| From discontinued operations  | (.25)                    | (.01)         | (.01)         |

|   |    |           |    |            |    |           |
|---|----|-----------|----|------------|----|-----------|
| Net earnings per common share             | \$ | (.80)     | \$ | .07        | \$ | .12       |
| Weighted average number of common shares: |    |           |    |            |    |           |
| Basic                                     |    | 9,833,635 |    | 9,490,357  |    | 4,913,920 |
| Diluted                                   |    | 9,833,635 |    | 10,264,665 |    | 4,958,920 |

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

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

FOR THE YEARS ENDED DECEMBER 31,

|  | Common<br>Shares | Stock<br>Amount | Additional<br>Paid-in<br>Income (Loss) | Retained<br>Earnings<br>(Accumulated<br>Deficit) | Comprehensive<br>Income (Loss) | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total<br>Stockholder's<br>Equity |
|--|------------------|-----------------|--|--|--------------------------------|--|----------------------------------|
| Balance at<br>January 1, 2006                    | 4,913,290        | \$ 49,133       | \$ 5,708,760                           | \$ 440,467                                       |                                | \$ (127,252)   | \$ 6,071,128                     |
| Net earnings                                     |                  |                 |  | 611,245  | \$ [(611,245)]                 |  | 611,245                          |
| Other<br>comprehensive<br>income, net of<br>tax: |                  |                 |  |  |                                |  |                                  |
| Unrealized loss<br>on marketable<br>securities   |                  |                 |  |  | (4,993)                        | (4,993)  | (4,993)                          |
| Comprehensive<br>income                          |                  |                 |  |  | \$ [(606,252)]                 |  |                                  |
| Balance at<br>December 31,<br>2006               | 4,913,290        | \$ 49,133       | \$ 5,708,760                           | \$ 1,051,712                                     |                                | \$ (132,245)   | \$ 6,677,360                     |
| Net earnings                                     |                  |                 |  | 755,019  | \$ [(755,019)]                 |  | 755,019                          |
| Other<br>comprehensive<br>income, net of<br>tax: |                  |                 |  |  |                                |  |                                  |
| Unrealized gain<br>on marketable<br>securities   |                  |                 |  |  | 34,957                         | 34,957   | 34,957                           |
| Comprehensive<br>income                          |                  |                 |  |  | \$ [(789,976)]                 |  |                                  |
| Acquisition of<br>Superior                       | 3,669,067        | 36,691          | 12,593,172                             |  |                                |  | 12,629,863                       |
| Conversion of<br>warrants                        | 908,000          | 9,080           | 142,485                                |  |                                |  | 151,565                          |
| Stock based<br>compensation                      |                  |                 | 28,817                                 |  |                                |  | 28,817                           |
| Balance at<br>December 31,<br>2007               | 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<br>comprehensive                           |                  |                 |  |  |                                |  |                                  |

income, net of  
tax:

|   |           |           |                  |                |                   |
|---|-----------|-----------|------------------|----------------|-------------------|
| Impairment of<br>marketable<br>securities |           |           | 97,288           | 97,288         | 97,288            |
| Comprehensive<br>income                   |           |           | \$ [(7,753,919)] |                |                   |
| Stock option<br>expense                   |           | 36,092    |                  |                | 36,092            |
| Stock issued in<br>Heritage<br>settlement | 8,372     | 83        | 49,916           |                | 49,999            |
| Stock warrants<br>exercised               | 334,906   | 3,350     | (17,580)         |                | (14,230)          |
| Balance at<br>December 31,<br>2008        | 9,833,635 | \$ 98,337 | \$ 18,541,662    | \$ (6,044,476) | \$ —\$ 12,595,523 |

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,

|  | 2008           | 2007        | 2006       |
|--|----------------|-------------|------------|
| <b>Cash flows from operating activities</b>  |                |             |            |
| Net earnings   | \$ (7,851,207) | \$ 755,019  | \$ 611,245 |
| Adjustments to reconcile net earnings to net cash provided by operating activities |                |             |            |
| Depreciation and amortization  | 484,832        | 253,887     | 139,395    |
| Impairment of Goodwill   | 8,185,443      | —           | —          |
| Deferred taxes   | (102,827)      | (31,692)    | (3,801)    |
| (Gain)/Loss on sale of marketable securities                                       | 115,991        | (3,890)     | —          |
| Stock options expense  | 18,512         | 28,817      | —          |
| Loss on discontinued operations  | —              | 120,495     | —          |
| Gain on sale of building   | —              | (579,447)   | —          |
| Settlement of Heritage litigation  | 50,000         | —           | —          |
| (Increase) decrease in operating assets and liabilities                            |                |             |            |
| Trade receivables  | 1,473,136      | (3,345,559) | (317,694)  |
| Inventories  | (3,077,051)    | (928,838)   | (225,908)  |
| Prepaid expenses and other current assets  | (27,417)       | (70,810)    | 23,181     |
| Change in other long term assets   | 73,919         | 181,855     | (11,826)   |
| Accounts payable and accrued expenses  | (668,000)      | (785,193)   | 179,081    |
| Change in customer deposits  | 915,554        | 24,712      | (34,408)   |
| Federal income taxes payable   | (580,031)      | 38,131      | (111,392)  |
| Net cash provided by (used in) operating activities                                | (989,146)      | (4,342,513) | 247,793    |
| <b>Cash flows from investing activities</b>  |                |             |            |
| Pawn loans made  | (1,294,876)    | (714,209)   | (485,595)  |
| Pawn loans repaid  | 649,122        | 380,060     | 417,124    |
| Recovery of pawn loan principal through sale of forfeited collateral               | 624,557        | 204,121     | 100,960    |
| Pay day loans made   | —              | (164,289)   | (274,973)  |
| Pay day loans repaid   | —              | 125,982     | 195,534    |
| Purchase of property and equipment   | (1,130,602)    | (3,780,554) | (42,058)   |
| Deal cost for Superior Galleries acquisition                                       | (70,379)       | (375,280)   | (569,782)  |
| Acquisition of Eules Gold & Silver   | —              | (600,000)   | —          |
| Proceeds from sale of discontinued operations                                      | —              | 77,496      | —          |
| Proceeds from sale of building   | —              | 1,299,898   | —          |
| Proceeds from sale of marketable securities  | —              | 396         | —          |
| Net cash used in investing activities  | (1,222,178)    | (3,546,379) | (658,790)  |
| <b>Cash flows from financing activities</b>  |                |             |            |
| Proceeds from debt   | 2,500,000      | 6,991,578   | 1,247,350  |
| Mortgage on new corporate office and store location                                | —              | 2,441,922   | —          |
| Issuance of common stock   | —              | 139,500     | —          |
| Repayments of notes payable  | (580,795)      | (2,357,842) | (668,905)  |
| Net cash provided by financing activities  | 1,919,205      | 7,215,158   | 578,445    |

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|  |            |            |              |
|--|------------|------------|--------------|
| Net increase (decrease) in cash and cash equivalents | (292,119)  | (673,734)  | 167,448      |
| Cash and cash equivalents at beginning of period     | 536,548    | 1,210,282  | 1,042,834    |
| Cash and cash equivalents at end of period           | \$ 244,429 | \$ 536,548 | \$ 1,210,282 |

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



DGSE COMPANIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

Supplemental disclosures:

|                                | 2008       | 2007       | 2006       |
|--------------------------------|------------|------------|------------|
| Cash paid during the year for: |            |            |            |
| Interest                       | \$ 904,242 | \$ 572,592 | \$ 378,562 |
| Income taxes                   | \$ 600,000 | \$ 50,000  | \$ 435,000 |

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

DGSE Companies, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
December 31, 2008, 2007 and 2006

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 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.

On July 13, 2007, the Company sold the loan balances from our American Pay Day Center locations and discontinued operations in those locations. In November 2008, the Company decided to discontinue the live auction segment of its 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 both 2008 and 2007. During 2008 the auction segment incurred a pretax loss of \$2,379,151. 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 and auction segment 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 is 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 less accumulated depreciation and amortization. Depreciation and amortization are being provided on the straight-line method over periods of three to thirty years. Machinery and equipment under capital leases are amortized on the straight-line method over the life of the lease. Expenditures for repairs and maintenance are charged to expense as incurred.

#### Goodwill

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. Under that pronouncement, goodwill is not being amortized but is subject to periodic tests to determine the amount of impairment, if any, to be reflected during the period.

DGSE COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements - continued  
December 31, 2008, 2007 and 2006

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

Impairment of Long-Lived Assets

The Company assesses the recoverability of its long-lived assets (including intangible assets) based on their current and anticipated future undiscounted cash flows. An impairment occurs when the discounted cash flows (excluding interest) do not exceed the carrying amount of the asset. The amount of the impairment loss is the difference between the carrying amount of the asset and its estimated fair value.

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 reprice frequently or the interest rates approximate current market rates.

Advertising Costs

Advertising costs are expensed as incurred and amounted to \$2,598,488, \$1,442,723 and \$823,106 for 2008, 2007 and 2006, 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, 2008, the Company had a recorded allowance amount of \$97,922. The balance of the Company's trade receivables is net of the allowance amount.

Pawn loans receivable in the amount of \$306,620 and \$263,856 as of December 31, 2008 and 2007, respectively, are included in the Consolidated Balance Sheets caption trade receivables. The related pawn service charges receivable in the amount of \$89,235 and \$63,532 as of December 31 2008 and 2007, respectively, are also included in the Consolidated Balance Sheets caption trade receivables.

Income Taxes

Deferred tax liabilities and assets are recognized for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the consolidated financial statements and tax basis of assets and liabilities.

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.

DGSE COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements - continued  
December 31, 2008, 2007 and 2006

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 SFAS 153, "Exchanges of Nonmonetary Assets – An Amendment of APB Opinion No. 29." 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.

Pawn loans ("loans") are made with the collateral of tangible personal property for one month with an automatic 60-day extension period. Pawn service charges are recorded at the time of redemption at the greater of \$15 or the actual interest accrued to date. If the loan is not repaid, the principal amount loaned plus accrued interest (or the fair value of the collateral, if lower) becomes the carrying value of the forfeited collateral ("inventories") which is recovered through sales to customers.

Direct cost of Pawn Loan Service Charge Revenue

The direct cost of pawn loan service charge revenue is included in the Consolidated Statements of Operations caption “Selling, general and administrative expenses”.

DGSE COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements - continued  
December 31, 2008, 2007 and 2006

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

Fair Value Measures

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measures" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measures required under other accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. Effective January 1, 2008, the Company has adopted the provisions of SFAS 157.

SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, SFAS No. 157 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. The adoption did not have any financial impact on the Company's results of operations and financial position.

Shipping and Handling Costs

Shipping and handling costs are included in selling general and administrative expenses, and amounted to \$305,988, \$266,867 and \$178,999 for 2008, 2007 and 2006, respectively.

Taxes Collected From Customers

In June of 2006, the FASB issued Emerging Issues Task Force 06-03, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement" ("EITF 06-03"). The consensus reached in EITF 06-03 allows companies to adopt a policy of presenting taxes in the income statement on either a gross basis (included in revenues and costs) or net basis (excluded from revenues). Taxes within the scope of EITF 06-03 would include taxes that are imposed on a revenue transaction between a seller and a customer, for example, sales taxes, use taxes, value-added taxes and some types of excise taxes. The Company has consistently recorded all taxes within the scope of EITF 06-03 on a net basis.



### Earnings (Loss) Per Share

Basic earnings per common share is based upon the weighted average number of shares of common stock outstanding. Diluted earnings per share is based upon the weighted average number of common stock outstanding and, when dilutive, common shares issuable for stock options.

### 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 Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income.

DGSE COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements - continued  
December 31, 2008, 2007 and 2006

### Stock-based Compensation

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123 (revised 2004), Share Based Payment, (SFAS No. 123(R)) for all share-based payment award to employees and directors including stock options related to our employee stock purchase plan. In addition, we applied the provisions of Staff Accounting Bulletin No. 107(SAB No. 107), issued by the SEC, in our adoption of SFAS No. 123(R).

We adopted SFAS No. 123(R) using the modified-prospective-transition method. Under this transition method, stock-based compensation expense recognized after the effective date includes: (1) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the measurement date fair value estimate in accordance with the original provisions of SFAS No. 123, and (2) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the measurement date fair value estimate in accordance with the provisions of SFAS No. 123(R).

Stock-based compensation expense recognized each period is based on the greater of the value of the portion of share-based payment awards under the straight-line method or the value of the portion of share-based payment awards that is ultimately expected to vest during the period. In accordance with SFAS No. 123(R), we estimate forfeitures at the time of grant and revise our estimate, if necessary, in subsequent period if actual forfeitures differ from those estimates.

Upon adoption of SFAS No. 123(R), we elected to use the Black-Scholes-Merton option-pricing formula to value share-based payments granted to employees subsequent to January 1, 2006 and elected to attribute the value of stock-based compensation to expense using the straight-line single option method.

On November 10, 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 123(R)-3, "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards," which detailed an alternative transition method for calculating the tax effects of stock-based compensation pursuant to SFAS No. 123(R). This alternative transition method included simplified methods to establish the beginning balance of the additional paid-in capital pool (APIC pool) related to the tax effects of employee stock-based compensation and to determine the subsequent impact on the APIC pool and Consolidated Statement of Cash Flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS No. 123(R). The tax effect of employee stock-based compensation has no APIC pool.

SFAS No. 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. There has been no excess tax benefit as of December 31, 2008, 2007 and 2006.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, and expenses during the reporting period. Actual results could differ from those estimates.

### Reclassifications

Certain reclassifications were made to the prior years' consolidated financial statements to conform to the current year presentation.

DGSE COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements - continued  
December 31, 2008, 2007 and 2006

New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measures" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measures required under other accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. Effective January 1, 2008, the Company has adopted the provisions of SFAS 157. The adoption did not have any financial impact on the Company's results of operations and financial position.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Effective January 1, 2008, the Company has adopted the provisions of SFAS 159 except as it applies to those nonfinancial assets and nonfinancial liabilities. Due to the fact that management has not elected to use the fair value option for eligible items, the adoption did not have any financial impact on the Company's results of operations and financial position.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"). Among other changes, SFAS 141R requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction at fair value; and establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, including earn-out provisions. SFAS 141R is effective for business combinations occurring in the first annual reporting period beginning after December 15, 2008. The Company is evaluating the anticipated effect of this recently issued standard on our consolidated results of operations, financial position and cash flows.

In April 2008, the FASB issued FASB Staff Position No. 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP No. 142-3"), which amends the factors that should be considered when developing renewal or extension assumptions used to determine the useful life of an intangible asset under Statement of Financial Accounting Standards No. 142 ("SFAS No. 142"), "Goodwill and Other Intangible Assets", in order to improve consistency between SFAS No. 142 and the period of expected cash flows to measure the fair value of the asset under Statement of Financial Accounting Standards No. 141 (revised 2007), "Business Combinations" and other U.S. generally accepted accounting practices. This FASB Staff Position is effective for fiscal periods beginning on or after December 15, 2008. The adoption of FSP No. 142-3 is not expected to have a material impact the Company's results of operations and financial position.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"). This statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in accordance with GAAP. With the issuance of this statement, the FASB concluded that the GAAP hierarchy should be directed toward the entity and not its auditor, and reside in the accounting literature established by the FASB as opposed to the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards No. 69, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." This statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." The Company has evaluated the new statement and has determined that it will not have a significant impact on the determination or

reporting of its financial results.

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DGSE COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements - continued  
December 31, 2008, 2007 and 2006

## 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:

|            | 2008          | 2007          |
|------------|---------------|---------------|
| Jewelry    | \$ 10,925,247 | \$ 8,118,454  |
| Scrap gold | 636,843       | 414,099       |
| Bullion    | 1,931,925     | 486,991       |
| Rare coins | 1,827,294     | 3,482,248     |
| Other      | 731,524       | 473,990       |
| Total      | \$ 16,052,833 | \$ 12,975,782 |

## Note 4 – Investments in Marketable Equity Securities

As of December 31, 2008 and 2007, the Company's marketable securities were classified as follows:  
2008

|                              | Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value |
|------------------------------|------|------------------------------|-------------------------------|------------|
| Non-Current:                 |      |                              |                               |            |
| Available-for-sale:          |      |                              |                               |            |
| Marketable Equity Securities | -*   | -                            | -                             | -*         |

\* See discussion below regarding permanent impairment of marketable securities

2007

|                              | Cost    | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value |
|------------------------------|---------|------------------------------|-------------------------------|------------|
| Non-Current:                 |         |                              |                               |            |
| Available-for-sale:          |         |                              |                               |            |
| Marketable Equity Securities | 199,915 | -                            | 138,146                       | 61,769     |

Investment income (loss) for the years ended December 31, 2008, 2007 and 2006 consists of the following:

|   | 2008      | 2007    | 2006 |
|---|-----------|---------|------|
| Interest Income                         | -         | -       | -    |
| Dividend Income                         | -         | -       | -    |
| (Loss) on sale of marketable securities | -         | (3,890) | -    |
| Impairment of marketable securities     | (115,991) | -       | -    |
| Total                                   | (115,991) | (3,890) | -    |

The Company invests in various equity securities for business and strategic purposes. Investments in public companies are classified as “available for sale” and are carried at fair value based on quoted market prices. The Company reviews its marketable equity holdings in publicly traded companies on a regular basis to determine if any security has experienced an other-than-temporary decline in fair value. The Company considers 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 marketable equity 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.

DGSE COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements - continued  
December 31, 2008, 2007 and 2006

At December 31, 2008, the Company wrote-off the value 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)s" in the accompanying Statement of Operations for 2008.



DGSE COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements - continued  
December 31, 2008, 2007 and 2006  
Note 5 – Property and Equipment

A summary of property and equipment at December 31, 2008 and 2007 is as follows:

|  | 2008                | 2007                |
|--|---------------------|---------------------|
| Buildings and improvements                     | \$ 3,175,242        | \$ 2,565,533        |
| Machinery and equipment                        | 1,224,457           | 812,833             |
| Furniture and fixtures                         | 939,168             | 806,108             |
|  | 5,325,613           | 4,184,474           |
| Less accumulated depreciation and amortization | 1,631,031           | 1,151,075           |
|  | 3,707,836           | 3,033,399           |
| Land   | 1,160,470           | 1,160,470           |
| <b>Total Property and Equipment</b>            | <b>\$ 4,868,306</b> | <b>\$ 4,193,869</b> |

During 2007, we sold the land and building at which our Dallas retail store and corporate headquarters were previously located for \$1,299,898. The net pretax gain from the sale was \$579,447 and is included in “Income from continuing operations” in the 2007 Statement of Operations. The net book value of the assets sold was \$712,518, which is net of accumulated depreciation of \$352,982.

#### Note 6 – Acquisitions

Superior Galleries, Inc. On May 30, 2007, we completed our acquisition of Superior Galleries, Inc., which we refer to as Superior, pursuant to an amended and restated agreement and plan of merger and reorganization dated as of January 6, 2007, which we refer to as the merger agreement, with Superior and Stanford International Bank Ltd., then Superior’s largest stockholder and its principal lender, which we refer to as Stanford, as stockholder agent for the Superior stockholders, whereby Superior became a wholly owned subsidiary of DGSE Companies, Inc. Superior’s principal line of business is the sale of rare coins on a retail, wholesale, and auction basis. Superior now operates a store in Woodland Hills, CA. The total purchase price of approximately \$13.6 million was broken down as follows:

|                           | Shares    | Stock Price | Extended Price |
|---------------------------|-----------|-------------|----------------|
| Common stock              | 3,669,067 | \$ 2.55     | \$ 9,356,121   |
| A warrants                | 845,634   | 1.27(1)     | 1,073,955      |
| B warrants                | 863,000   | 2.55        | 2,220,650      |
| Exercise Price B warrants | 863,000   | \$ .001     | (863)          |
| Direct transaction costs  |           |             | 1,176,290      |
| Total purchase price      |           |             | \$ 13,806,153  |

(1) The \$1.27 is the fair value of the warrants calculated under the Black Sholes method as of the acquisition date.

The total purchase price has been allocated to the fair value of assets acquired and liabilities assumed as follows:

|                           |              |
|---------------------------|--------------|
| Goodwill                  | \$ 8,203,448 |
| Intangible assets...      | 2,521,340    |
| Deferred tax asset        | 1,860,475(1) |
| Property and other assets | 1,068,958    |

|                      |               |
|----------------------|---------------|
| Inventory            | 3,260,766     |
| Liabilities assumed  | (3,108,834)   |
| Total purchase price | \$ 13,806,153 |

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(1) Subsequent to date of acquisition the Company recorded an adjustment to reduce goodwill and increase deferred tax assets to reflect the change in estimated fair value of the net operating loss carryforwards acquired in the Superior acquisition.

DGSE COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements - continued  
December 31, 2008, 2007 and 2006

In accordance with SFAS 142, the goodwill will not be amortized but instead tested for impairment in accordance with the provisions of SFAS 142 at least annually and more frequently upon the occurrence of certain events.

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 and it was determined that it 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.

The operating results of Superior have been included in the consolidated financial statements since the acquisition date of May 30, 2007. The following unaudited condensed consolidated financial information reflects the pro forma results of operations for the year ended December 31, 2007 as if the acquisition of Superior had occurred on January 1 of 2007 after giving effect to purchase accounting adjustments as compared to actual results of operations for the year ended December 31, 2008 and the effects of the discontinued operations related to the auction segment.

The pro forma results have been prepared for comparative purposes only and do not purport to be indicative of what operating results would have been had the acquisition actually taken place at the beginning of the period, and may not be indicative of future operating results (in thousands, except per share data):

| (In thousands, except per share data) | Year Ended December 31, |            |
|---------------------------------------|-------------------------|------------|
|                                       | 2008                    | 2007       |
|                                       | (Unaudited)             |            |
|                                       |                         | Pro Forma  |
| Total revenue                         | \$ 105,219              | \$ 73,565  |
| Net earnings (loss)                   | \$ (7,851)              | \$ (2,922) |
| Net earnings per share — basic        | \$ (.80)                | \$ (.33)   |
| Net earnings per share — diluted      | \$ (.80)                | \$ (.33)   |
| Weighted average shares — basic       | 9,834                   | 8,582      |
| Weighted average shares — diluted     | 9,834                   | 10,353     |

In relation to the acquisition, as of June 29, 2007, Stanford and Dr. L.S. Smith, our chairman and chief executive officer, collectively had the power to vote approximately 63% of our voting securities, and beneficially owned approximately 56.4% of our voting securities on a fully-diluted basis (after giving effect to the exercise of all options and warrants held by them which are exercisable within sixty days of June 29, 2007 but not giving effect to the exercise of any other options or warrants). Consequently, these two stockholders may have sufficient voting power to control the outcome of virtually all corporate matters submitted to the vote of our common stockholders. Those matters could include the election of directors, changes in the size and composition of our board of directors, mergers and other business combinations involving us, or the liquidation of our company. In addition, Stanford and Dr. Smith have entered into a corporate governance agreement with us, which entitles Stanford and Dr. Smith to each nominate two "independent" directors to our board and entitles Dr. Smith, our chairman and chief executive officer, and William H. Oyster, our president and chief operating officer, to be nominated to our board for so long as each remains an executive officer.



DGSE COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements - continued  
December 31, 2008, 2007 and 2006

Through this control of company nominations to our board of directors and through their voting power, Stanford and Dr. Smith are able to exercise substantial control over certain decisions, including decisions regarding the qualification and appointment of officers, dividend policy, access to capital (including borrowing from third-party lenders and the issuance of additional equity securities), a merger or consolidation with another company, and our acquisition or disposition of assets. Also, the concentration of voting power in the hands of Stanford and Dr. Smith could have the effect of delaying or preventing a change in control of our company, even if the change in control would benefit our other stockholders. The significant concentration of stock ownership may adversely affect the trading price of our common stock due to investors' perception that conflicts of interest may exist or arise.

Eules Gold & Silver, Inc.

On May 9, 2007 we purchased all of the tangible assets of Eules Gold and Silver, Inc., located in Eules, Texas. The purchase price paid for these assets totaled \$1,000,000 including \$600,000 in cash and a two year note in the amount of \$400,000. We opened a new retail store in the former Eules Gold & Silver facility and operate under the name of Dallas Gold & Silver Exchange. Of the assets received, \$990,150 was inventory and the remainder was fixed assets.

We entered into these transactions seeing them as opportunistic acquisitions that would allow us to expand our operations and provide a platform for future growth.

DGSE COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements - continued  
December 31, 2008, 2007 and 2006

## Note 7 – Goodwill

The Company recognized an increase in goodwill as a result of the Superior Galleries, Inc. acquisition during 2007. At December 31, goodwill was reflected for the following reporting units:

|                         | 2008              | 2007                |
|-------------------------|-------------------|---------------------|
| Superior Galleries, Inc | \$ —              | \$ 8,115,064        |
| Wholesale Watch Sales   | \$ 837,117        | \$ 837,117          |
| <b>Total Goodwill</b>   | <b>\$ 837,117</b> | <b>\$ 8,952,181</b> |

During 2008, the Company reflected \$8,185,443 of goodwill, including \$70,379 relating to Superior merger costs classified in other assets during 2008 relating to the acquisition of Superior Galleries, Inc. in May 2007, which were subsequently reclassified in 2008 to goodwill prior to recognition of impairment. 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 methodologies 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.

No impairment losses were recognized during 2007 or 2006.

## Note 8 – Notes Payable

At December 31, 2008, the Company was obligated to various individuals under unsecured, demand notes bearing annual interest rates of 8% to 12% totaling \$191,078.

At December 31, 2007, the Company was obligated to various individuals under unsecured, demand notes bearing annual interest rates of 8% to 12% totaling \$187,468.

At December 31, 2006, the Company was obligated to various individuals under unsecured, demand notes bearing annual interest rates of 8% to 12% totaling \$183,708.

DGSE COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements - continued  
December 31, 2008, 2007 and 2006

## Note 9 – Long-Term Debt

|   | 2008          | 2007          |
|---|---------------|---------------|
| A summary of long-term debt at December 31, follows:  |               |               |
| Revolving promissory notes payable to bank, a note of \$3,595,000 at December 31, 2008 and 2007 which bears interest at prime plus 1-1/2% (4.25% and 9.5% at December 31, 2008 and 2007), respectively, and is due June 22, 2009 and a note of \$1,000,000 which bears interest at prime plus 1-1/2% ( 4.25 and 9.5% at December 31, 2008 and 2007), respectively, is due in equal monthly installments of \$16,667 through June 2009. Balance of note was \$399,976 and \$584,721 as of December 31, 2008 and 2007, respectively. The defined borrowing base requirement is based on eligible trade receivables and inventory. As of December 31, 2008, 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 has an additional \$11,500,000 line of credit with Stanford International Bank, LTD. Interest on this facility is at the prime rate, as reported in the Wall Street Journal and the facility will mature and become due in May 2011. Of this line, \$9,200,000 has been drawn against, most of which related to the Superior Galleries acquisition. As of December 31, 2008, \$2,300,000 was available to us. | \$ 13,194,976 | \$ 10,879,721 |
| Our mortgage payable as of December 31, 2008 is due in monthly installments of \$22,744, including interest of 6.70% with a balance due in August 2016.   | 2,332,484     | 2,435,364     |
| Note payable, due in quarterly payments of \$57,691 including interest of 8.25%. The final payment is due May 1, 2009   | 110,791       | 315,128       |
| Note payable, due January 2, 2009. Interest is payable monthly at a rate of 8%  | 247,556       | 310,556       |
| Capital lease obligations   | 24,930        | 50,763        |
|   | 15,910,737    | 13,991,532    |
| Line of credit  | (3,595,000)   |               |
| Less current maturities   | (599,972)     | (501,631)     |
|   | \$ 11,715,765 | \$ 13,489,901 |

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

| December 31, | Long-term Debt | Obligations under<br>Capital Leases | Totals       |
|--------------|----------------|-------------------------------------|--------------|
| 2009         | \$ 4,173,977   | \$ 21,048                           | \$ 4,195,025 |
| 2010         | 99,109         | 3,882                               | 102,991      |
| 2011         | 9,300,280      | —                                   | 9,300,280    |

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|                      |               |          |               |
|----------------------|---------------|----------|---------------|
| 2012                 | 107,209       | —        | 107,209       |
| 2013                 | 362,172       | —        | 362,172       |
| Thereafter           | 1,843,060     | —        | 1,843,060     |
|                      | 15,885,807    | 24,930   | 15,910,737    |
| Less current portion | (578,924)     | (21,048) | (599,972)     |
| Less line of credit  | (3,595,000)   | —        | (3,595,000)   |
|                      | \$ 11,711,883 | \$ 3,882 | \$ 11,715,765 |



DGSE COMPANIES, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements - continued  
December 31, 2008, 2007 and 2006

## 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, 2008, 2007 and 2006 is as follows:

| Net Earnings                             | Shares                                |                   | Per Share        |
|--|---------------------------------------|-------------------|------------------|
|  | (In thousands, except per share data) |                   |                  |
| <b>Year ended December 31, 2008</b>      |                                       |                   |                  |
| Basic earnings per common share          | \$ (7,851,207)                        | 9,833,635         | \$ (0.80)        |
| Effect of dilutive stock options         | —                                     | —                 |                  |
| <b>Diluted earnings per common share</b> | <b>\$ (7,851,207)</b>                 | <b>9,833,635</b>  | <b>\$ (0.80)</b> |
| <b>Year ended December 31, 2007</b>      |                                       |                   |                  |
| Basic earnings per common share          | \$ 755,019                            | 9,490,357         | \$ 0.08          |
| Effect of dilutive stock options         | —                                     | 774,308           |                  |
| <b>Diluted earnings per common share</b> | <b>\$ 755,019</b>                     | <b>10,264,665</b> | <b>\$ 0.07</b>   |
| <b>Year ended December 31, 2006</b>      |                                       |                   |                  |
| Basic earnings per common share          | \$ 611,245                            | 4,913,920         | \$ 0.12          |
| Effect of dilutive stock options         | —                                     | 45,000            |                  |
| <b>Diluted earnings per common share</b> | <b>\$ 611,245</b>                     | <b>4,958,920</b>  | <b>\$ 0.12</b>   |

For the year ended December 31, 2008, 2007 and 2006, approximately 1.4 million shares, 0 share and 0 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, 2008, 2007 and 2006, approximately 400,000 shares, 0 share and 0 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:

|  | 2008      | 2007    | 2006   |
|--|-----------|---------|--------|
| Warrants issued in conjunction with financing    | -         | 3,982   | 45,000 |
| Warrants issued in conjunction with acquisitions | 438,672   | 370,928 |        |
| Common stock options                             | 1,443,134 | 399,398 | -      |

The warrants issued in conjunction with financing were issued to expire on July 5, 2008 and were issued at an exercise price of \$3.10. The warrants issued in conjunction with acquisitions were issued to expire on May 29, 2014 at an exercise price of \$1.89.

## 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, 2008 we had 241,845 options available for grant and 1,458,155 options granted and outstanding under the 2004 Stock Option Plan.

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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, 2008 we had 750,000 options available for grant and no options granted and outstanding under the 2006 Equity Incentive Plan.

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

The Company adopted SFAS No. 123(R) using the modified-prospective-transition method. Under this transition method, stock-based compensation expense recognized after the effective date includes: (1) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimate in accordance with the original provisions of SFAS No. 123, and (2) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimate in accordance with the provision of SFAS No. 123. Results from prior periods have not been restated and do not include the impact of SFAS No. 123(R). Stock-based compensation expense under SFAS No. 123(R) for the year ended December 31, 2006 was \$0, relating to employee and director stock options and our employee stock purchase plan. Stock-based compensation expense under the provision of APB No. 25 for the year ended December 31, 2006 was insignificant.

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

Upon adoption of SFAS No. 123(R), the Company elected to use the Black-Scholes-Merton option-pricing formula to value share-based payments granted to employees subsequent to January 1, 2006 and elected to attribute the value of stock-based compensation to expense using the straight-line single option method. These methods were previously used for the Company's pro forma information required under SFAS No. 123.

On November 10, 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 123(R)-3, "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards", which detailed an alternative transition method for calculating the tax effects of stock-based compensation pursuant to SFAS No. 123(R). This alternative transition method included simplified methods to establish the beginning balance of the additional paid-in capital pool (APIC pool) related to the tax effects of employee stock-based compensation and to determine the subsequent impact on the APIC pool and Consolidated Statement of Cash Flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS No. 123(R). As of December 31, 2008, we have not recorded the tax effects of employee stock-based compensation and have made no

adjustments to the APIC pool.

SFAS No. 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. As there have been no stock options exercised, we have not reported these excess tax benefits as of December 31, 2008. The following table summarizes the activity in common shares subject to options for the years ended December 31, 2008, 2007 and 2006:

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|                                    | 2008      |  | At December 31,<br>2007 |  | 2006      |  |
|------------------------------------|-----------|--|-------------------------|--|-----------|--|
|                                    | Shares    | Weighted<br>average<br>exercise<br>price | Shares                  | Weighted<br>average<br>exercise<br>price | Shares    | Weighted<br>average<br>exercise<br>price |
| Outstanding at beginning of year   | 1,479,252 | \$ 2.13                                  | 1,403,134               | \$ 2.03                                  | 1,403,134 | \$ 2.03                                  |
| Granted                            | -         | 6.00                                     | 126,468                 | 9.22                                     | -         | 0.00                                     |
| Exercised                          | -         | 0.00                                     | -                       | 0.00                                     | -         | 0.00                                     |
| Forfeited                          | (21,097)  | 5.72                                     | (50,350)                | 14.36                                    | -         | 0.00                                     |
| Outstanding at end of year         | 1,458,155 | \$ 2.17                                  | 1,479,252               | \$ 2.35                                  | 1,403,134 | \$ 2.03                                  |
| Options exercisable at end of year | 1,418,155 | \$ 2.16                                  | 1,417,645               | \$ 2.13                                  | 1,403,134 | \$ 2.03                                  |

The weighted average estimated fair value of stock options granted during 2007 was \$4.62 using the Black-Scholes-Morton option pricing formula utilizing a dividend yield of \$0, volatility of 55%, risk-free rate of 3.8%, and expected life of 7 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, 2008 is summarized as follows:

| Range of exercise prices | Options outstanding   |   |                                       |                              |
|--------------------------|-----------------------|---|---------------------------------------|------------------------------|
|                          | Number<br>outstanding | Weighted average<br>remaining<br>contractual life | Weighted<br>average<br>exercise price | Aggregate<br>intrinsic value |
| \$1.12                   | 267,857               | 4 years   | \$ 1.12                               | \$ 155,000                   |
| \$1.13 to \$2.25         | 1,072,777             | 4 years   | 2.21                                  | -                            |
| \$2.26 to \$2.82         | 35,000                | 4 years   | 2.60                                  | -                            |
| \$2.83 to \$4.19         | 17,500                | 1 years   | 3.88                                  | -                            |
| \$6.00                   | 50,000                | 9 years   | 6.00                                  | -                            |
| \$13.91 to \$15.56       | 15,021                | 3 years   | 14.06                                 | -                            |
|                          | 1,458,155             |   |                                       | \$ 155,000                   |

| Range of exercise prices | Options exercisable   |   |                                       |                              |
|--------------------------|-----------------------|---|---------------------------------------|------------------------------|
|                          | Number<br>outstanding | Weighted average<br>remaining<br>contractual life | Weighted<br>average<br>exercise price | Aggregate<br>intrinsic value |
| \$1.12                   | 267,857               | 4 years   | \$ 1.12                               | \$ 155,000                   |
| \$1.13 to \$2.25         | 1,072,777             | 4 years   | 2.21                                  | -                            |
| \$2.26 to \$2.82         | 35,000                | 4 years   | 2.60                                  | -                            |
| \$2.83 to \$4.19         | 17,500                | 1 years   | 3.88                                  | -                            |

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|                    |           |         |       |         |
|--------------------|-----------|---------|-------|---------|
| \$6.00             | 10,000    | 9 years | 6.00  | -       |
| \$13.91 to \$15.56 | 15,021    | 3 years | 14.06 | -       |
|                    | 1,418,155 |         | \$    | 155,000 |

The aggregate intrinsic values in the above table were based on the closing price of our common stock of \$1.70 as of December 31, 2008. The aggregate fair value of stock options vesting during 2008 and 2007 was \$63,000 and \$171,000, respectively.

During 2008, 2007, and 2006, we recognized \$18,512, \$28,817 and \$0, respectively, of stock-based compensation expense related to the plans, which was recorded in selling, general, and administrative expenses. At December 31, 2008, the balance of unearned stock-based compensation to be expensed in future periods related to unvested share-based awards was approximately \$130,000. The weighted average period over which the unearned stock-based compensation was expected to be recognized was approximately 5 years.

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## Note 12 – Comprehensive Income

Comprehensive income at December 31, 2008, 2007 and 2006 is as follows:

|  | Before-Tax<br>Amount | Tax Benefit | Net-of-Tax<br>Amount |
|--|----------------------|-------------|----------------------|
| Accumulated comprehensive income (loss) at January 1, 2006         | \$ (162,071)         | \$ 34,819   | \$ (127,252)         |
| Unrealized holding losses arising during 2006                      | (7,519)              | 2,572       | (4,993)              |
| Accumulated comprehensive income (loss) at December 31, 2006       | (169,590)            | 37,391      | (132,245)            |
| Unrealized holding losses arising during 2007                      | 25,714               | 9,197       | 34,957               |
| Accumulated comprehensive income (loss) at December 31, 2007       | (143,876)            | 46,588      | (97,288)             |
| Unrealized holding gains arising during 2008                       | (59,906)             | 19,294      | (40,508)             |
| Accumulated comprehensive income (loss) prior to being written off | (203,782)            | 65,882      | (137,796)            |
| Write-off of securities  | 203,782              | (65,882)    | 137,796              |
| Accumulated comprehensive income (loss) at December 31, 2008       | \$ —                 | \$ —        | \$ —                 |

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## Note 13 – Intangible Assets

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

|                   | December 31,<br>2008 | December 31,<br>2007 |
|-------------------|----------------------|----------------------|
| Customer base     | \$ 401,333           | \$ 430,000           |
| Trade name        | \$ 2,091,340         | \$ 2,091,340         |
| Intangible assets | \$ 2,492,673         | \$ 2,521,340         |

Only the customer base intangible asset will be subject to amortization and will be amortized over a 15 year life. The accumulated amortization as of December 31, 2008 is \$28,667.

## Note 14 – Income Taxes

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

|                               | 2008           | 2007       | 2006       |
|-------------------------------|----------------|------------|------------|
| Tax expense at statutory rate | \$ (2,801,643) | \$ 272,658 | \$ 316,484 |
| Goodwill impairment           | 2,783,051      | —          | —          |
| Other                         | (30,542)       | (30,254)   | 3,323      |
| Tax expense                   | (49,134)       | 242,404    | 319,807    |
| Current                       | 53,694         | 77,424     | 323,653    |
| Deferred                      | (102,828)      | 164,980    | (3,846)    |
| Total                         | \$ (49,134)    | \$ 242,404 | \$ 319,807 |

Deferred income taxes are comprised of the following at December 31, 2008 and 2007:

|  | 2008         | 2007         |
|--|--------------|--------------|
| Deferred tax assets (liabilities):               |              |              |
| Inventory  | \$ 123,655   | \$ 90,546    |
| Allowance for bad debt                           | 33,293       | —            |
| Unrealized loss on available for sale securities | (4,969)      | 46,588       |
| Property and equipment                           | (8,389)      | (12,764)     |
| Capital loss carryover                           | 8,366        | 8,366        |
| Superior NOL                                     | 1,849,968    | 1,766,361    |
| Goodwill   | (93,892)     | (93,892)     |
| Total deferred tax assets                        | \$ 1,908,032 | \$ 1,805,205 |

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



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|                    | 2008         | 2007       | 2006       |
|--------------------|--------------|------------|------------|
| Federal—           |              |            |            |
| Current            | \$ 1,097,231 | \$ 46,826  | \$ 352,034 |
| Deferred           | (92,545)     | 148,482    | (3,735)    |
|                    | 1,004,686    | 195,308    | 348,299    |
| State and foreign— |              |            |            |
| Current            | 53,694       | 38,250     | -          |
| Deferred           | (10,283)     | 16,498     | (111)      |
|                    | 43,411       | 54,748     | (111)      |
|                    | \$ 1,048,097 | \$ 250,056 | \$ 348,188 |

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

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|                               | 2008           | 2007       | 2006       |
|-------------------------------|----------------|------------|------------|
| Tax expense at statutory rate | \$ (1,704,412) | \$ 280,310 | \$ 344,929 |
| Goodwill impairment           | 2,783,051      | -          | -          |
| Other                         | (30,542)       | (30,254)   | 3,259      |
|                               | 1,048,097      | 250,056    | 348,188    |

The net operating loss carry-forward of approximately \$1.42 million begins to expire in 2019.

#### 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, 2008 are as follows:

| Year Ending<br>December 31, | Lease<br>Obligations |
|-----------------------------|----------------------|
| 2009                        | \$ 681,054           |
| 2010                        | 645,192              |
| 2011                        | 611,827              |
| 2012                        | 606,804              |
| Thereafter                  | 148,656              |
|                             | \$ 2,693,533         |

Rent expense for the years ended December 31, 2008, 2007 and 2006 was approximately \$595,770, \$437,069 and \$201,810 respectively.

#### Note 16 – Discontinued Operations

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 both 2008 and 2007. During 2008 the auction segment incurred a pretax loss of \$2,379,151.

The following summarizes the carrying amount of assets and liabilities of the auction segment as of December 31, 2008:

|                      |                     |
|----------------------|---------------------|
| <b>Assets</b>        |                     |
| Accounts receivable  | \$ 900,306          |
| Current assets       | \$ 900,306          |
| Long-term receivable | \$ 305,275          |
| <b>Total assets</b>  | <b>\$ 1,205,581</b> |
| <b>Liabilities</b>   |                     |

|                  |           |
|------------------|-----------|
| Auctions payable | \$ 33,144 |
|------------------|-----------|

On July 13, 2007, we sold the loan balances from our American Pay Day Center locations for \$77,496 and discontinued operations in those locations. The receivables sold, including interest due, had a balance of \$120,573 at the time of the sale. The sales price was determined based on the age of the outstanding receivables. As a result of the sale and discontinued operations, we recognized a pretax loss of \$107,838 on the disposal and a pretax loss on discontinued operations of \$51,938 for the year ended December 31, 2007.

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As a result, operating results from these business segments have been reclassified to discontinued operations for all periods presented. The company had no significant non cash items other than depreciation and amortization and goodwill impairment. Goodwill impairment in the amounts of \$7,337,443 and \$848,000 were charged to the rare coin and discontinued operations segments in 2008, respectively. As of December 31, 2008 there were no operating assets to be disposed of or liabilities to be paid in completing the disposition of these operations.

Note 17 – 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. The Company's operations by segment were as follows:

| (In thousands)                       | Retail<br>Jewelry | Wholesale<br>Jewelry | Bullion   | Rare<br>Coins | Discontinued<br>Operations | Corporate<br>and Other | Consolidated |
|--------------------------------------|-------------------|----------------------|-----------|---------------|----------------------------|------------------------|--------------|
| <b>Revenues</b>                      |                   |                      |           |               |                            |                        |              |
| 2008                                 | \$ 36,592         | \$ 5,125             | \$ 45,449 | \$ 15,913     | \$ —                       | \$ 2,140               | \$ 105,219   |
| 2007                                 | 19,338            | 5,785                | 21,153    | 13,921        | —                          | 1,271                  | 61,469       |
| 2006                                 | 16,519            | 5,997                | 16,026    | 4,697         | —                          | 618                    | 43,857       |
| <b>Net income (loss)</b>             |                   |                      |           |               |                            |                        |              |
| 2008                                 | 1,698             | 71                   | 139       | (7,446)       | (2,130)                    | (183)                  | (7,851)      |
| 2007                                 | 319               | 197                  | 235       | 8             | 42                         | (46)                   | 755          |
| 2006                                 | 143               | 270                  | 148       | 101           | —                          | (51)                   | 611          |
| <b>Identifiable assets</b>           |                   |                      |           |               |                            |                        |              |
| 2008                                 | 23,396            | 1,710                | 1,955     | 1,827         | 1,206                      | 1,250                  | 31,344       |
| 2007                                 | 16,132            | 2,164                | 536       | 11,651        | 2,987                      | 3,389                  | 36,859       |
| 2006                                 | 10,020            | 1,940                | 114       | 235           | —                          | 837                    | 11,830       |
| <b>Capital Expenditures</b>          |                   |                      |           |               |                            |                        |              |
| 2008                                 | 1,081             | —                    | 6         | —             | —                          | 10                     | 1,097        |
| 2007                                 | 3,126             | —                    | 23        | —             | —                          | 274                    | 3,423        |
| 2006                                 | 11                | —                    | —         | —             | —                          | 31                     | 285          |
| <b>Depreciation and amortization</b> |                   |                      |           |               |                            |                        |              |
| 2008                                 | 140               | —                    | 104       | 104           | 48                         | 89                     | 485          |
| 2007                                 | 130               | —                    | 33        | 32            | 32                         | 21                     | 248          |
| 2006                                 | 107               | —                    | —         | —             | —                          | 4                      | 111          |
| <b>Goodwill</b>                      |                   |                      |           |               |                            |                        |              |
| 2008                                 | —                 | 837                  | —         | —             | —                          | —                      | 837          |
| 2007                                 | —                 | 837                  | —         | 7,337         | 848                        | —                      | 8,185        |
| 2006                                 | —                 | 837                  | —         | —             | —                          | —                      | 837          |
| <b>Interest expense</b>              |                   |                      |           |               |                            |                        |              |

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|                           |     |     |     |     |   |      |     |
|---------------------------|-----|-----|-----|-----|---|------|-----|
| 2008                      | 545 | —   | 179 | 179 | — | —    | 903 |
| 2007                      | 587 |     | 34  | 27  | — | 27   | 675 |
| 2006                      | 408 | —   | —   | —   | — | —    | 408 |
| <b>Income tax expense</b> |     |     |     |     |   |      |     |
| 2008                      | 658 | 55  | 27  | 68  | — | (48) | 760 |
| 2007                      | 102 | 57  | 65  | 2   | — | 24   | 250 |
| 2006                      | 89  | 139 | 76  | 52  | — | (8)  | 348 |

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## Note 18 – Quarterly Results of Operations (Unaudited)

|                                     | 1st Quarter                           | 2nd Quarter | 3rd Quarter | 4th Quarter |
|-------------------------------------|---------------------------------------|-------------|-------------|-------------|
|                                     | (In thousands, except per share data) |             |             |             |
| <b>Year ended December 31, 2008</b> |                                       |             |             |             |
| Revenues                            | \$ 32,175                             | \$ 25,715   | \$ 23,994   | \$ 23,335   |
| Operating profit                    | 1,051                                 | 557         | 1,085       | 962         |
| 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)   |
| <b>Year ended December 31, 2007</b> |                                       |             |             |             |
| Revenues                            | \$ 10,240                             | \$ 12,220   | \$ 16,154   | \$ 22,993   |
| Operating profit                    | 384                                   | 263         | (5)         | 534         |
| Net earnings                        | 182                                   | 271         | 108         | 84          |
| Basic earnings per common share     | \$ 0.04                               | \$ 0.05     | \$ 0.02     | \$ 0.02     |
| Diluted earnings per common share   | \$ 0.04                               | \$ 0.05     | \$ 0.02     | \$ 0.02     |
| <b>Year ended December 31, 2006</b> |                                       |             |             |             |
| Revenues                            | \$ 9,721                              | \$ 12,546   | \$ 9,609    | \$ 12,207   |
| Operating profit                    | 302                                   | 484         | 242         | 295         |
| Net earnings                        | 148                                   | 271         | 108         | 84          |
| Basic earnings per common share     | \$ 0.03                               | \$ 0.05     | \$ 0.02     | \$ 0.02     |
| Diluted earnings per common share   | \$ 0.03                               | \$ 0.05     | \$ 0.02     | \$ 0.02     |