

**IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION**

SECURITIES AND EXCHANGE COMMISSION,	§	
	§	
Plaintiff,	§	
	§	
vs.	§	
	§	
DGSE COMPANIES INC. and	§	
I. JOHN BENSON	§	
	§	CIVIL ACTION
	§	No. 14-1909
	§	
Defendants,	§	
	§	

COMPLAINT

Plaintiff Securities and Exchange Commission (the “Commission”) alleges:

SUMMARY OF THE ACTION

1. This case concerns financial reporting, books and records, and internal controls violations by DGSE Companies Inc. (“DGSE” or the “Company”) and its former Chief Financial Officer (“CFO”), I. John Benson (“Benson”). DGSE buys and sells jewelry, diamonds, fine watches, rare coins and currency, precious metal bullion products, scrap gold, silver, platinum and palladium, as well as collectibles and other valuables.

2. Since at least 2009, DGSE failed to maintain appropriate accounting systems, policies, procedures, and controls. As a result, DGSE created and filed with the Commission materially inaccurate financial statements.

3. The most significant irregularities related to DGSE’s inventory, which was overvalued by millions of dollars, as detailed in DGSE’s Form 10K-A, filed with the Commission on December 19, 2012.

4. The inventory irregularities were caused by fraudulent accounting entries made or directed by Benson. Other irregularities, detailed in the December 19, 2012 Form 10K-A, were

caused either by the same improper entries made or directed by Benson or by DGSE's lack of accounting controls.

5. The Commission seeks an order enjoining DGSE and Benson from future violations of the securities laws.

JURISDICTION AND VENUE

6. The Commission brings this action pursuant to Section 20(b) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77q(b)] and Section 21(d) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§ 78u(d)].

7. This Court has jurisdiction over this action pursuant to Sections 21(d), 21(e) and 27 of the Exchange Act [15 U.S.C. §§ 78u(d), 78u(e) and 78aa].

8. Venue is proper in this District pursuant to Section 27 of the Exchange Act [15 U.S.C. § 78aa] because defendant DGSE is headquartered in, and a substantial portion of the conduct alleged in this complaint occurred within, the Northern District of Texas.

DEFENDANTS

9. DGSE is a Nevada corporation headquartered in Dallas, Texas. Its common stock is registered with the Commission under Section 12(b) of the Exchange Act [15 U.S.C. §78l] and is traded on the NYSE MKT under the symbol "DGSE."

10. Benson is a natural person residing in Dallas, Texas.

FACTUAL ALLEGATIONS

11. DGSE is a company which buys and sells jewelry, diamonds, fine watches, rare coins and currency, precious metal bullion products, scrap gold, silver, platinum and palladium, as well as collectibles and other valuables. DGSE markets its products and services throughout the country to individual consumers, dealers, and institutions throughout the United States.

12. As disclosed in its April 16, 2012 Form 8-K, in early 2012 DGSE's Board of Directors determined the existence of certain accounting irregularities, which could affect the reliability of DGSE's reported financial information. As a result of these accounting irregularities, DGSE stated that its previously-filed financial statements, starting in the second quarter of 2007, should not be relied upon.

13. DGSE's initial investigation indicated that the accounting irregularities were the result of improper accounting for inventory and other accounts by Benson, DGSE's former CFO.

14. As a result of the discovery of the accounting irregularities, DGSE retained a forensic accounting firm to assist in determining the cause of the accounting irregularities. During the course of its investigation, the forensic accounting firm examined DGSE's books and records and accounting controls and conducted interviews with a number of key personnel.

15. The investigation revealed a number of deficiencies in DGSE's accounting systems and controls, including: (1) many unsupported and/or improperly-described accounting entries; (2) no standard, formalized process for reconciling intercompany accounts; (3) booking unsupported entries directly into the general ledger rather than the appropriate subsystems; (4) lack of regular inventory counts and matching to the general ledger; (5) lack of an audit trail with which to identify the reason for accounting adjustments; (6) use of antiquated accounting systems that did not maintain the proper audit trail and thus allowed for the manipulation of the general ledger; (7) improper data security; and (8) no backup of the accounting data.

16. These deficiencies in DGSE's accounting systems and controls led to significant problems which significantly compromised the integrity of DGSE's financial data. Included in these deficiencies was the failure to properly record intercompany transactions, including inventory transfers between stores. As a result of these failures, DGSE's intercompany accounts became out of balance by millions of dollars.

17. In order to bring the intercompany accounts—and DGSE's general ledger as a whole—back into balance, Benson made a number of fraudulent accounting entries. These entries resulted in a number of errors in DGSE's financial statements—including overstating DGSE's inventory by millions of dollars.

18. Benson concealed these improper entries by manipulating inventory detail listings to reflect consigned inventory, which DGSE did not own, as being owned by DGSE. Benson sent these listings to DGSE's external auditor.

19. Benson misled DGSE's external auditor regarding DGSE's coding for consigned inventory—leading the auditor to believe that the consigned goods were owned by DGSE.

20. Benson also knowingly signed a false "management representation letter" to the auditor, which stated that Company management was not aware of any fraud, that DGSE held good title to all assets, and that all consignment goods had been excluded from inventory.

21. To get DGSE's accounting systems to match his manipulated inventory listings, Benson ordered accounting personnel to make "adjusting" entries to the general ledger. When questioned by DGSE's Controller regarding these adjusting entries and inventory balances, Benson stated that that DGSE's external auditor had examined and confirmed the inventory balances and adjusting entries, and that the adjusting entries were being made at the auditor's request. DGSE's Controller and other managers relied upon Benson to be in charge of preparing financial reports and providing information to the auditor.

22. As a result of the improper adjusting entries and the manipulated inventory listings which Benson caused to be provided to DGSE's external auditor, DGSE's publicly-reported financial information contained a number of misstatements—including the large overstatements of DGSE's inventory.

23. Benson knowingly signed the misleading public filings—including DGSE's Forms 10-K for the Fiscal Years Ended December 31, 2009 and December 31, 2010, as well as quarterly filings for the same period. Benson also signed false management certifications, which were attached to these filings.

24. As a result of the internal investigation initiated by DGSE that is discussed above and additional work performed by outside accountants retained by DGSE, the Company voluntarily restated its historical financial statements in its Form 10K-A, filed December 19, 2012.

25. The irregularities identified above can be traced in part to deficiencies in DGSE's accounting systems and internal controls.

26. DGSE's own internal investigation revealed that the Company lacked sufficient controls to adequately maintain and reconcile its accounts—including its intercompany accounts. DGSE's antiquated accounting systems required it to make unnecessary intercompany entries in order to track transfers between its various stores. In addition, DGSE's accounting department was not sufficiently staffed, resulting in many transfers not being booked and leaving the intercompany accounts significantly out of balance. Benson took advantage of DGSE's deficient controls by employing improper accounting entries to fill the "hole" in the intercompany accounts.

27. DGSE lacked sufficient written policies and procedures to ensure that its accounting entries were accurate and properly documented. In addition, DGSE failed to follow accounting best practices. For example, DGSE regularly booked entries directly into the general ledger rather than into its subsystems, many of which were not properly documented. As a result, DGSE did not have

an audit trail that would enable it to confirm the accuracy of its reported financial information. DGSE also lacked proper system security and data backups.

28. These deficiencies enabled Benson to make the improper accounting entries undetected, and prevented DGSE from being able to go back and properly audit its accounting data.

29. DGSE responded to the discovery of Benson's conduct by implementing extensive remedial measures designed to improve internal controls. These measures included DGSE: (1) removing and replacing all members of the prior management team; (2) hiring new independent auditors to report to the Audit Committee; (3) engaging a national consulting firm to identify errors in electronic accounting system functioning, reconcile prior inventory discrepancies, and balance the general ledger to the physical inventory counts; (4) augmenting electronic inventory tracking capabilities and procedures; (5) instituting a regular blind inventory check that is independently reconciled by a newly-formed Inventory Accounting and Control Department; and (6) reinforcing the Code of Business Conduct & Ethics and Related Person Transaction Policy.

FIRST CLAIM FOR RELIEF

(against Benson only)

Violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder

30. The Commission realleges and incorporates by reference Paragraphs 1 through 29.

31. Benson violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, which prohibit any person from employing, in connection with the purchase or sale of any security registered on a national security exchange, any manipulative or deceptive device or contrivance.

32. Benson violated and, unless restrained and enjoined, will continue to violate Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. §240.10b-5].

SECOND CLAIM FOR RELIEF

Violations of Section 17(a) of the Securities Act

33. The Commission realleges and incorporates by reference Paragraphs 1 through 29.

34. Benson violated Sections 17(a)(1)-(3) of the Securities Act, which prohibit any person from, in the offer or sale of securities: (1) employing devices, schemes or artifices to defraud; (2) obtaining money or property by means of untrue statements or omissions; and (3) engaging in transactions, practices or courses of business which operate or would operate as a fraud or deceit.

35. DGSE violated Section 17(a)(2) of the Securities Act.

36. Benson violated and, unless restrained and enjoined, will continue to violate Sections 17(a)(1)-(3) of the Securities Act [15 U.S.C. § 77q(a)(1)-(3)].

37. DGSE violated and, unless restrained and enjoined, will continue to violate Section 17(a)(2) of the Securities Act [15 U.S.C. § 77q(a)(2)].

THIRD CLAIM FOR RELIEF

Violations of Section 13(b)(5) of the Exchange Act

(against Benson only)

38. The Commission realleges and incorporates by reference Paragraphs 1 through 29.

39. Benson violated Section 13(b)(5) of the Exchange Act [15 U.S.C. § 78m], which prohibits any person from knowingly circumventing or knowingly failing to implement a system of internal accounting controls or knowingly falsifying any book, record, or account of an issuer of securities registered pursuant to Section 12 of the Exchange Act [15 U.S.C. § 78l].

40. Benson violated and, unless restrained and enjoined, will continue to violate Section 13(b)(5) of the Exchange Act [15 U.S.C. § 78m].

FOURTH CLAIM FOR RELIEF

Violations of Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, 13a-13, and 13a-14 thereunder

41. The Commission realleges and incorporates by reference Paragraphs 1 through 29.

42. DGSE has violated, and unless restrained and enjoined, will continue to violate Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20, 13a-1, and 13a-13 [17

C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13] thereunder, which obligate issuers of securities registered pursuant to Section 12 of the Exchange Act [15 U.S.C. § 78l] to file with the Commission accurate periodic reports, including annual and quarterly reports.

43. Benson aided and abetted DGSE's violations, and unless restrained and enjoined, will continue to aid and abet violations of Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20, 13a-1, and 13a-13 [17 C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13] thereunder, which obligate issuers of securities registered pursuant to Section 12 of the Exchange Act [15 U.S.C. § 78l] to file with the Commission accurate periodic reports, including annual and quarterly reports.

44. Benson violated, and unless restrained and enjoined, will continue violate of Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rule 13a-14 [17 C.F.R. §§ 240.13a-14] thereunder, which obligates the principal financial officer of issuers of securities registered pursuant to Section 12 of the Exchange Act [15 U.S.C. § 78l] to sign personal certifications indicating that they reviewed certain periodic reports filed with the Commission and that, based on their knowledge, these reports did not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the report.

FIFTH CLAIM FOR RELIEF

Violations of Section 13(b)(2)(A) of the Exchange Act

45. The Commission realleges and incorporates by reference Paragraphs 1 through 29.

46. DGSE failed to make and keep books, records, or accounts which, in reasonable detail, accurately and fairly reflected its transactions and dispositions of its assets, in violation of Section 13(b)(2)(A) of the Exchange Act.

47. DGSE violated and, unless restrained and enjoined, will continue to violate Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)].

48. Benson aided and abetted DGSE's violations and, unless restrained and enjoined, will continue to aid and abet violations of Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)].

SIXTH CLAIM FOR RELIEF

Violations of Section 13(b)(2)(B) of the Exchange Act

49. The Commission realleges and incorporates by reference Paragraphs 1 through 29.

50. DGSE violated and, unless restrained and enjoined, will continue to violate Section 13(b)(2)(B) of the Exchange Act, which obligates issuers of securities registered pursuant to Section 12 of the Exchange Act [15 U.S.C. § 78m(b)(2)(B)] to devise and maintain a sufficient system of internal accounting controls sufficient to provide reasonable assurances that: (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements, and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

51. Benson aided and abetted DGSE's violations and, unless restrained and enjoined, will continue to aid and abet violations of Section 13(b)(2)(B) of the Exchange Act [15 U.S.C. § 78m(b)(2)(B)].

SEVENTH CLAIM FOR RELIEF

Violations of Rule 13b2-2(a) under the Exchange Act

(against Benson only)

52. The Commission realleges and incorporates by reference Paragraphs 1 through 29.

53. Benson violated Rule 13b2-2(a) under Exchange Act, which prohibits a director or officer of an issuer of securities registered pursuant to Section 12 of the Exchange Act [15 U.S.C. § 78l] from, in connection with a financial statement audit: (1) making or causing to be made a materially false and misleading statement to an accountant; or (2) omitting to state any material fact necessary in order to make statements made, in light of the circumstances under which such statements were made, not misleading.

54. Benson violated and, unless restrained and enjoined, will continue to violate Rule 13b2-2(a) under the Exchange Act [17 C.F.R. §240.13b2-2(a)].

EIGHTH CLAIM FOR RELIEF

Violations of Rule 13b2-1 under the Exchange Act

55. The Commission realleges and incorporates by reference Paragraphs 1 through 29.

56. Benson violated Rule 13b2-1 under Exchange Act, which prohibits any person from directly or indirectly, falsifying or causing to be falsified, any book, record, or account subject to Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)].

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that this Court:

I.

Issue an order permanently enjoining DGSE from violating Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§ 78m(a), 78m(b)(2)(A), and 78m(b)(2)(B)] and Rules 12b-20, 13a-1, and 13a-13 [17 C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13] thereunder, and Section 17(a)(2) of the Securities Act [15 U.S.C. § 77q(a)(2)].

II.

Issue an order permanently enjoining Benson from violating Sections 17(a)(1)-(3) of the Securities Act [15 U.S.C. § 77q(a)(1)-(3)] and Sections 10(b), 13(a), and 13(b)(5) of the Exchange Act [15 U.S.C. §§ 78j(b), 78m(a), and 78m(b)(5)] and Rules 10b-5, 13a-14, 13b2-1, and 13b2-2(a) thereunder [17 C.F.R. §§ 240.10b-5, 240.13a-14, 240.13b2-1, and 240.13b2-2(a)], and aiding and abetting violations of Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§ 78m(a), 78m(b)(2)(A), and 78m(b)(2)(B)] and Rules 12b-20, 13a-1, and 13a-13 thereunder [17 C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13].

III.

Order civil penalties against Benson pursuant to Sections 20(d) of the Securities Act [15 U.S.C. § 77d] and 21(d)(3) of the Exchange Act [15 USC § 78u].

IV.

Retain jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders and decrees that may be entered, or to entertain any suitable application or motion for additional relief within the jurisdiction of this Court.

Dated May 27, 2014.

Respectfully submitted,

/s/Chris Davis

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