

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2019

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 000-52015

Western Capital Resources, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of Incorporation or Organization)

47-0848102
(I.R.S. Employer Identification Number)

11550 "I" Street, Suite 150, Omaha, Nebraska 68137
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (402) 551-8888

N/A

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

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

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

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

Large accelerated filer

Accelerated filer

Emerging growth company

Non-accelerated filer

Smaller reporting company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None	N/A	N/A

As of August 14, 2019, the registrant had outstanding 9,388,677 shares of common stock, \$0.0001 par value per share.

Western Capital Resources, Inc.

Index

	<u>Page</u>
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	3
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
<u>Item 4. Controls and Procedures</u>	23
<u>PART II. OTHER INFORMATION</u>	24
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	24
<u>Item 6. Exhibits</u>	25
<u>SIGNATURES</u>	26

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

WESTERN CAPITAL RESOURCES, INC. AND SUBSIDIARIES

CONTENTS

	<u>Page</u>
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	
Condensed Consolidated Balance Sheets	4
Condensed Consolidated Statements of Operations	5
Condensed Consolidated Statements of Shareholders' Equity	6
Condensed Consolidated Statements of Cash Flows	7
Notes to Condensed Consolidated Financial Statements	8

WESTERN CAPITAL RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	<u>June 30, 2019</u>	<u>December 31, 2018</u>
	<u>(Unaudited)</u>	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 16,354,206	\$ 16,724,983
Short-term investments	24,534,675	22,394,748
Loans receivable (net of allowance for losses of \$549,000 and \$818,000, respectively)	3,487,046	4,111,842
Accounts receivable (net of allowance for losses of \$32,000 and \$25,000, respectively)	579,188	493,208
Inventories (net of allowance of \$669,000 and \$670,000, respectively)	7,070,743	8,467,512
Prepaid income taxes	185,162	512,099
Prepaid expenses and other	2,799,152	2,954,794
Escrow and other receivables	3,350,292	3,312,984
TOTAL CURRENT ASSETS	58,360,464	58,972,170
INVESTMENTS	—	1,000,000
PROPERTY AND EQUIPMENT, net	9,498,042	9,945,826
OPERATING LEASE RIGHT-OF-USE ASSETS	10,527,705	—
GOODWILL	5,796,528	5,796,528
INTANGIBLE ASSETS, net	3,710,467	4,167,110
LOAN RECEIVABLE	547,513	—
OTHER	564,062	558,209
TOTAL ASSETS	\$ 89,004,781	\$ 80,439,843
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 8,693,897	\$ 11,816,050
Current portion operating lease liabilities	4,881,266	—
Other current liabilities	1,168,471	1,291,713
Current portion notes payable	63,616	—
Current portion finance lease obligations	26,523	51,211
Deferred revenue	551,711	1,012,772
TOTAL CURRENT LIABILITIES	15,385,484	14,171,746
LONG-TERM LIABILITIES		
Notes payable, net of current portion	1,052,983	789,216
Operating lease liabilities, net of current portion	5,832,614	—
Deferred income taxes	1,029,000	795,000
TOTAL LONG-TERM LIABILITIES	7,914,597	1,584,216
TOTAL LIABILITIES	23,300,081	15,755,962
COMMITMENTS AND CONTINGENCIES (Note 16)	—	—
EQUITY		
WESTERN SHAREHOLDERS' EQUITY		
Common stock, \$0.0001 par value, 12,500,000 shares authorized, 9,388,677 shares issued and outstanding	939	939
Additional paid-in capital	29,031,741	29,031,741
Retained earnings	35,017,038	33,774,293
TOTAL WESTERN SHAREHOLDERS' EQUITY	64,049,718	62,806,973
NONCONTROLLING INTERESTS	1,654,982	1,876,908
TOTAL EQUITY	65,704,700	64,683,881
TOTAL LIABILITIES AND EQUITY	\$ 89,004,781	\$ 80,439,843

See notes to condensed consolidated financial statements.

WESTERN CAPITAL RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
REVENUES				
Sales and associated fees	\$ 24,178,741	\$ 23,681,740	\$ 47,999,579	\$ 47,498,934
Financing fees and interest	1,985,774	2,072,114	4,100,645	4,246,660
Other revenues	3,991,590	4,026,503	8,014,101	8,493,522
Total Revenues	<u>30,156,105</u>	<u>29,780,357</u>	<u>60,114,325</u>	<u>60,239,116</u>
COST OF REVENUES				
Cost of sales	12,939,802	12,395,630	25,564,939	24,561,663
Provisions for loans receivable losses	175,831	241,183	394,108	441,385
Total Cost of Revenues	<u>13,115,633</u>	<u>12,636,813</u>	<u>25,959,047</u>	<u>25,003,048</u>
GROSS PROFIT	<u>17,040,472</u>	<u>17,143,544</u>	<u>34,155,278</u>	<u>35,236,068</u>
OPERATING EXPENSES				
Salaries, wages and benefits	8,185,203	8,415,533	16,392,434	17,733,326
Occupancy	2,647,662	3,084,870	5,411,945	6,507,088
Advertising, marketing and development	2,023,838	2,438,708	3,799,680	4,468,023
Depreciation	438,198	463,103	867,698	1,022,092
Amortization	178,379	214,313	362,915	429,121
Other	2,021,278	2,580,645	4,285,870	5,275,885
Total Operating Expenses	<u>15,494,558</u>	<u>17,197,172</u>	<u>31,120,542</u>	<u>35,435,535</u>
OPERATING INCOME (LOSS)	<u>1,545,914</u>	<u>(53,628)</u>	<u>3,034,736</u>	<u>(199,467)</u>
OTHER INCOME (EXPENSES):				
Dividend and interest income	193,976	144,175	375,519	311,686
Interest expense	(29,159)	(50,138)	(55,414)	(137,736)
Total Other Income (Expenses)	<u>164,817</u>	<u>94,037</u>	<u>320,105</u>	<u>173,950</u>
INCOME (LOSS) BEFORE INCOME TAXES	<u>1,710,731</u>	<u>40,409</u>	<u>3,354,841</u>	<u>(25,517)</u>
PROVISION FOR INCOME TAX EXPENSE (BENEFIT)	<u>332,000</u>	<u>(61,000)</u>	<u>676,000</u>	<u>(141,000)</u>
NET INCOME	<u>1,378,731</u>	<u>101,409</u>	<u>2,678,841</u>	<u>115,483</u>
LESS NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST	<u>(247,531)</u>	<u>(187,958)</u>	<u>(497,228)</u>	<u>(373,049)</u>
NET INCOME (LOSS) ATTRIBUTABLE TO WESTERN COMMON SHAREHOLDERS	<u>\$ 1,131,200</u>	<u>\$ (86,549)</u>	<u>\$ 2,181,613</u>	<u>\$ (257,566)</u>
EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO WESTERN COMMON SHAREHOLDERS				
Basic and diluted	<u>\$ 0.12</u>	<u>\$ (0.01)</u>	<u>\$ 0.23</u>	<u>\$ (0.03)</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic and diluted	<u>9,388,677</u>	<u>9,390,997</u>	<u>9,388,677</u>	<u>9,390,997</u>

See notes to condensed consolidated financial statements.

WESTERN CAPITAL RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)

Western Capital Resources, Inc. Shareholders						
Common Stock						
	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Noncontrolling Interests	Total
BALANCE December 31, 2018	9,388,677	\$ 939	\$29,031,741	\$33,774,293	\$ 1,876,908	\$64,683,881
Net Income	—	—	—	1,050,413	249,697	1,300,110
Noncontrolling interest contribution to equity	—	—	—	—	17,446	17,446
Dividends	—	—	—	(469,434)	(266,600)	(736,034)
BALANCE March 31, 2019	9,388,677	939	29,031,741	34,355,272	1,877,451	65,265,403
Net Income	—	—	—	1,131,200	247,531	1,378,731
Dividends	—	—	—	(469,434)	(470,000)	(939,434)
BALANCE – June 30, 2019	9,388,677	\$ 939	\$29,031,741	\$35,017,038	\$ 1,654,982	\$65,704,700

Western Capital Resources, Inc. Shareholders						
Common Stock						
	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Noncontrolling Interests	Total
BALANCE December 31, 2017	9,390,997	\$ 939	\$29,031,741	\$37,903,204	\$ 1,757,686	\$68,693,570
Net Income (Loss)	—	—	—	(171,017)	185,091	14,074
Dividends	—	—	—	(469,550)	—	(469,550)
BALANCE March 31, 2018	9,390,997	939	29,031,741	37,262,637	1,942,777	68,238,094
Net Income (Loss)	—	—	—	(86,549)	187,958	101,409
Dividends	—	—	—	(469,550)	(339,600)	(809,150)
BALANCE – June 30, 2018	9,390,977	\$ 939	\$29,031,741	\$36,706,538	\$ 1,791,135	\$67,530,353

See notes to condensed consolidated financial statements.

WESTERN CAPITAL RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended	
	June 30, 2019	June 30, 2018
OPERATING ACTIVITIES		
Net income	\$ 2,678,841	\$ 115,483
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	867,698	1,022,092
Amortization	362,915	429,121
Amortization of operating lease right-of-use assets	2,779,807	—
Deferred income taxes	234,000	(126,000)
Loss (gain) on disposals	(147,977)	421,472
Income from investments	(164,295)	(12,705)
Changes in operating assets and liabilities:		
Loans receivable	624,796	426,174
Accounts receivable	(62,492)	97,907
Inventory	1,228,814	883,187
Prepaid expenses and other assets	93,954	416,823
Operating lease liabilities	(3,110,370)	—
Accounts payable and accrued expenses	(3,202,289)	(22,045,319)
Deferred revenue and other current liabilities	(584,303)	(673,055)
Net cash and cash equivalents provided by (used in) operating activities	<u>1,599,099</u>	<u>(19,044,820)</u>
INVESTING ACTIVITIES		
Purchases of investments	(18,942,632)	(26,564,181)
Proceeds from held-to-maturity investments	17,967,000	36,461,012
Purchases of property and equipment	(210,995)	(549,186)
Acquisition of stores, net of cash acquired	(164,400)	(76,707)
Proceeds from installment sale receivable	—	185,963
Proceeds from the disposal of operating assets	1,120,000	10,000
Net cash and cash equivalents provided by (used in) investing activities	<u>(231,027)</u>	<u>9,466,901</u>
FINANCING ACTIVITIES		
Payments on notes payable – short-term, net	—	(51,992)
Payments on notes payable – long-term	(38,693)	—
Payments on finance leases	(24,688)	(23,263)
Payments of dividends to noncontrolling interests	(736,600)	(339,600)
Payments of dividends	(938,868)	(939,100)
Net cash and cash equivalents used in financing activities	<u>(1,738,849)</u>	<u>(1,353,955)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(370,777)	(10,931,874)
CASH AND CASH EQUIVALENTS		
Beginning of period	16,724,983	21,295,819
End of period	<u>\$ 16,354,206</u>	<u>\$ 10,363,945</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Income taxes paid	\$ 119,563	\$ 19,145,172
Interest paid	\$ 44,865	\$ 75,052
Noncash investing and financing activities:		
Assets received in acquisition (See Note 13)	\$ 1,694,546	\$ —
Liabilities assumed in acquisition (See Note 13)	\$ 1,325,024	\$ —
Note payable assumed in acquisition (See Note 13)	\$ 347,918	\$ —
Noncontrolling interest contribution to subsidiary (See Note 13)	\$ 17,446	\$ —
Right-of-use assets obtained in exchange for operating lease obligation	\$ 963,486	\$ —

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation, Nature of Business and Summary of Significant Accounting Policies –

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared according to the instructions to Form 10-Q and Section 210.8-03(b) of Regulation S-X of the Securities and Exchange Commission (SEC) and, therefore, certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been omitted.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019.

For further information, refer to the Consolidated Financial Statements and notes thereto included in our Form 10-K for the year ended December 31, 2018. The condensed consolidated balance sheet at December 31, 2018, has been derived from the audited consolidated financial statements at that date, but does not include all of the information and notes required by GAAP.

Nature of Business

Western Capital Resources, Inc. (WCR) is a parent company owning operating subsidiaries, with percentage owned shown parenthetically, as summarized below.

- Cellular Retail
 - PQH Wireless, Inc. (PQH) (100%) – operates 201 cellular retail stores as of June 30, 2019 (116 are 100% owned and 85 are owned through majority owned subsidiaries), as an exclusive dealer of the Cricket brand.
- Direct to Consumer
 - J & P Park Acquisitions, Inc. (JPPA) (100%) – an online and direct marketing distribution retailer of 1) live plants, seeds, holiday gifts and garden accessories selling its products under Park Seed, Jackson & Perkins, and Wayside Gardens brand names and 2) home improvement and restoration products operating under the Van Dyke’s Restorers brand, as well as a seed wholesaler under the Park Wholesale brand.
 - J & P Real Estate, LLC (JPRE) (100%) – owns real estate utilized as JPPA’s distribution and warehouse facility and the corporate offices of JPPA.
- Consumer Finance
 - Wyoming Financial Lenders, Inc. (WFL) (100%) – owns and operates 38 “payday” stores in six states (Iowa, Kansas, Nebraska, North Dakota, Wisconsin and Wyoming) as of June 30, 2019 providing sub-prime short-term uncollateralized non-recourse “cash advance” or “payday” loans typically ranging from \$100 to \$500 with a maturity of generally two to four weeks, sub-prime short-term uncollateralized non-recourse installment loans typically ranging from \$300 to \$800 with a maturity of six months, check cashing and other money services to individuals.
 - Express Pawn, Inc. (EPI) (100%) – owns and operates retail pawn stores (three as of June 30, 2019) in Nebraska and Iowa providing collateralized non-recourse pawn loans and retail sales of merchandise obtained from forfeited pawn loans or purchased from customers.

References in these financial statement notes to “Company” or “we” refer to Western Capital Resources, Inc. and its subsidiaries. References to specific companies within our enterprise, such as “PQH,” “JPPA,” “JPRE,” “WFL” or “EPI” are references only to those companies.

Basis of Consolidation

The consolidated financial statements include the accounts of WCR, its wholly owned subsidiaries and other entities in which the Company owns a controlling financial interest. For financial interests in which the Company owns a controlling financial interest, the Company applies the provisions of Financial Accounting Standards Board Accounting Standards Codification (“ASC”) 810, “Consolidation” applicable to reporting the equity and net income or loss attributable to noncontrolling interests. All significant intercompany balances and transactions of the Company have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that may affect certain reported amounts and disclosures in the consolidated financial statements and accompanying notes. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. Significant management estimates relate to the notes and loans receivable allowance, carrying value and impairment of long-lived goodwill and intangible assets, inventory valuation and obsolescence, estimated useful lives of property and equipment, gift certificate and merchandise credits liability and deferred taxes and tax uncertainties.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), related to recognition of lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the new guidance, lessees are required to recognize the following for all leases: (1) a lease liability, which is the present value of a lessee’s obligation to make lease payments, and (2) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. All entities must classify leases to determine how to recognize lease-related revenue and expense. Quantitative and qualitative disclosures are required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The intention is to require enough information to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity’s leasing activities. All entities are

required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Company adopted ASU 2016-02 and ASC 842 using the modified retrospective method on January 1, 2019. See Note 8 for further disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326), related to the measurement of credit losses on financial instruments. The standard requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The ASU is effective for annual reporting periods beginning after December 15, 2019 and interim periods within that annual period, with early adoption permitted and the standard to be applied using a modified retrospective approach. The Company does not believe adoption of ASU 2016-13 will have a material impact on our financial condition, results of operations and consolidated financial statements.

In July 2018, the FASB issued ASU 2018-11, Leases - Targeted Improvements (Topic 842) to provide entities with relief from the costs of implementing certain aspects of the new leasing standard, ASU 2016-02. Specifically, under the amendments in ASU 2018-11: (1) entities may elect not to recast the comparative periods presented when transitioning to the new leasing standard, and (2) lessors may elect to not separate non-lease components from leases when certain conditions are met. The amendments have the same effective date as ASU 2016-02 (January 1, 2019 for the Company). The Company adopted certain options available under ASU 2018-11 on January 1, 2019. See Note 8 for further disclosures.

No other new accounting pronouncements issued or effective during the fiscal year have had or are expected to have a material impact on the consolidated financial statements.

2. Risks Inherent in the Operating Environment –

Regulatory

The Company’s Consumer Finance segment activities are highly regulated under numerous federal, state, and local laws, regulations and rules, which are subject to change. New laws, regulations or rules could be enacted or issued, interpretations of existing laws, regulations or rules may change and enforcement action by regulatory agencies may intensify. Over the past several years, consumer advocacy groups and certain media reports have advocated governmental and regulatory action to prohibit or severely restrict sub-prime lending activities of the kind conducted by the Company. After several years of research, debate, and public hearings, in October 2017 the U.S. Consumer Financial Protection Bureau (CFPB) adopted a new rule for payday lending. The rule, originally scheduled to go into effect in August 2019, would impose significant restrictions on the industry, and it is expected that a large number of lenders would be forced to close their stores. The CFPB’s studies projected a reduction in the number of lenders by 50%, while industry studies forecast a much higher attrition rate if the rule is implemented as originally adopted.

However, in January 2018, the CFPB issued a statement that it intends to “reconsider” the regulation. The most current information from the CFPB website states the proposals it is considering includes rescinding the mandatory underwriting provisions contained in the rule and to delay the August 19, 2019 compliance date for the other provisions to November 19, 2020. At this time it is uncertain whether the rule will be implemented as announced, rewritten with more favorable terms for the industry, or thrown out altogether. If the rule is implemented as written, it could have a significant and negative impact on business conducted within our Consumer Finance segment.

The above rule or any other adverse change in present federal, state, or local laws or regulations that govern or otherwise affect lending could result in the Consumer Finance segment’s curtailment or cessation of operations in certain or all jurisdictions or locations. Furthermore, any failure to comply with any applicable local, state or federal laws or regulations could result in fines, litigation, closure of one or more store locations or negative publicity. Any such change or failure would have a corresponding impact on the Company’s and segment’s results of operations and financial condition, primarily through a decrease in revenues resulting from the cessation or curtailment of operations, or a decrease in operating income through increased legal expenditures or fines, and could also negatively affect the Company’s general business prospects due to lost or decreased operating income or if negative publicity effects its ability to obtain additional financing as needed.

In addition, the passage of federal, state or local laws and regulations or changes in interpretations of them could, at any point, essentially prohibit the Consumer Finance segment from conducting its lending business in its current form. Any such legal or regulatory change would certainly have a material and adverse effect on the Company, its operating results, financial condition and prospects, and perhaps even the viability of the Consumer Finance segment.

Concentrations

The Company has demand deposits at financial institutions, often times in excess of the limit for insurance by the Federal Deposit Insurance Corporation. As of June 30, 2019, the Company had demand deposits in excess of insurance amounts of approximately \$6.55 million.

3. Cash Equivalents and Marketable Investments –

The following table shows the Company’s cash equivalents and held-to-maturity investments, by significant investment category, recorded as cash equivalents or short- and long-term investments:

	June 30, 2019	December 31, 2018
Cash and cash equivalents		
Operating accounts	\$ 10,631,886	\$ 10,901,929
U.S. treasuries	4,054,023	3,014,478
Money markets	1,668,297	2,808,576
<i>Subtotal</i>	<u>16,354,206</u>	<u>16,724,983</u>
Held-to-maturity investments		
Certificates of deposit	11,237,069	12,711,069
U.S. treasuries	13,237,606	10,683,679
<i>Subtotal</i>	<u>24,534,675</u>	<u>23,394,748</u>
TOTAL	<u>\$ 40,888,881</u>	<u>\$ 40,119,731</u>

As of June 30, 2019 and December 31, 2018, held to maturity investments consisted of the following:

June 30, 2019						
	Cost	Accrued Interest	Amortized Discount	Amortized Cost	Unrealized Gain (Loss)	Estimated Fair Value
Certificates of Deposit	\$ 11,172,289	\$ 64,780	\$ —	\$ 11,237,069	\$ (55,497)	\$ 11,181,572
U.S. Treasuries	13,176,244	—	121,362	13,297,606	9,638	13,307,244
	<u>\$ 24,348,533</u>	<u>\$ 64,780</u>	<u>\$ 121,362</u>	<u>\$ 24,534,675</u>	<u>\$ (45,859)</u>	<u>\$ 24,488,816</u>

December 31, 2018						
	Cost	Accrued Interest	Amortized Discount	Amortized Cost	Unrealized Gain (Loss)	Estimated Fair Value
Certificates of Deposit	\$ 12,670,000	\$ 41,069	\$ —	\$ 12,711,069	\$ (68,087)	\$ 12,642,982
U.S. Treasuries	10,564,160	25,707	93,812	10,683,679	(30,229)	10,653,450
	<u>\$ 23,234,160</u>	<u>\$ 66,776</u>	<u>\$ 93,812</u>	<u>\$ 23,394,748</u>	<u>\$ (98,316)</u>	<u>\$ 23,296,432</u>

Interest income recognized on held-to-maturity investments and other sources was as follows:

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Held-to-maturity	\$ 158,551	\$ 108,879	\$ 300,697	\$ 242,548
Other	35,425	35,296	74,822	69,138
	<u>\$ 193,976</u>	<u>\$ 144,175</u>	<u>\$ 375,519</u>	<u>\$ 311,686</u>

The Company deposited in aggregate \$1.75 million of cash across 7 different accounts at a financial institution as an accommodation to its majority stockholder, who has other business relationships with the financial institution. The funds in these accounts can be withdrawn at any time, do not serve as collateral in any way, and are held on market terms.

4. Loans Receivable –

The Consumer Finance segment's outstanding loans receivable aging is as follows:

June 30, 2019				
	Payday	Installment	Pawn	Total
Current	\$ 2,994,082	\$ 65,536	\$ 290,012	\$ 3,349,630
1-30	197,241	15,787	—	213,028
31-60	127,547	5,262	—	132,809
61-90	85,345	2,378	—	87,723
91-120	71,706	1,555	—	73,261
121-150	67,232	960	—	68,192
151-180	110,710	693	—	111,403
	3,653,863	92,171	290,012	4,036,046
Less Allowance	(535,000)	(14,000)	—	(549,000)
	<u>\$ 3,118,863</u>	<u>\$ 78,171</u>	<u>\$ 290,012</u>	<u>\$ 3,487,046</u>

December 31, 2018				
	Payday	Installment	Pawn	Total
Current	\$ 3,314,182	\$ 254,255	\$ 321,447	\$ 3,889,884
1-30	224,091	41,596	—	265,687
31-60	199,259	30,285	—	229,544
61-90	153,449	15,189	—	168,638
91-120	131,480	9,001	—	140,481
121-150	125,074	4,311	—	129,385
151-180	101,619	4,604	—	106,223
	4,249,154	359,241	321,447	4,929,842
Less Allowance	(770,000)	(48,000)	—	(818,000)
	<u>\$ 3,479,154</u>	<u>\$ 311,241</u>	<u>\$ 321,447</u>	<u>\$ 4,111,842</u>

5. Loans Receivable Allowance –

A rollforward of the Consumer Finance segment's loans receivable allowance is as follows:

	Six Months Ended June 30, 2019	Year Ended December 31, 2018
Loans receivable allowance, beginning of period	\$ 818,000	\$ 833,000
Provision for loan losses charged to expense	394,108	1,241,638
Write-offs, net	(663,108)	(1,256,638)
Loans receivable allowance, end of period	<u>\$ 549,000</u>	<u>\$ 818,000</u>

6. Accounts Receivable –

A breakdown of accounts receivables by segment is as follows:

June 30, 2019				
	Cellular Retail	Direct to Consumer	Consumer Finance	Total
Accounts receivable	\$ 331,337	\$ 265,244	\$ 14,607	\$ 611,188
Less allowance	—	(32,000)	—	(32,000)
Net accounts receivable	<u>\$ 331,337</u>	<u>\$ 233,244</u>	<u>\$ 14,607</u>	<u>\$ 579,188</u>

December 31, 2018				
	Cellular Retail	Direct to Consumer	Consumer Finance	Total
Accounts receivable	\$ 130,251	\$ 372,076	\$ 15,881	\$ 518,208
Less allowance	—	(25,000)	—	(25,000)
Net accounts receivable	<u>\$ 130,251</u>	<u>\$ 347,076</u>	<u>\$ 15,881</u>	<u>\$ 493,208</u>

A portion of accounts receivable are unsettled credit card sales from the prior one to five business days. This makes up 62% and 57% of the net accounts receivable balance at June 30, 2019 and December 31, 2018, respectively.

7. Inventory –

Inventories consist of:

	June 30, 2019	December 31, 2018
Finished Goods		
Cellular Retail	\$ 4,871,993	\$ 5,456,898
Direct to Consumer	2,006,260	2,848,484
Consumer Finance	861,490	832,130
Reserve	(669,000)	(670,000)
TOTAL	<u>\$ 7,070,743</u>	<u>\$ 8,467,512</u>

As a result of changes in the market for certain Company products and the resulting deteriorating value, carrying amounts for those inventories were reduced by approximately \$669,000 and \$670,000 at June 30, 2019 and December 31, 2018, respectively. These inventory write-downs have been reflected in cost of goods sold in the statement of operations. Management believes that these reductions properly reflect inventory at lower of cost or market, and no additional losses will be incurred upon disposition.

8. Leases –

The Company adopted ASC 842 - Leases, using the modified retrospective method on January 1, 2019. The Company elected the package of practical expedients relief option offered in ASU 2016-02 and the accounting policy election for lessees not to separate lease and non-lease components (election applies to leased real property asset class).

The most significant impact of the adoption of ASC 842 was the recognition of right-of-use (“ROU”) assets and lease liabilities for operating leases of \$11.53 million and \$11.76 million, respectively, and a reversal of deferred rent of \$0.23 million on January 1, 2019. The Company’s accounting for finance leases, which are insignificant, remained unchanged. The adoption of ASC 842 did not have any impact on the Company’s operating results or cash flows.

The Company has many retail and office space lease agreements and insignificant equipment lease agreements which are accounted for as operating leases. The real property leases typically are for three- to five-year terms with many containing options for similar renewal periods. The Company determines if an arrangement is or contains a lease at inception. Operating leases are included in operating lease right-of-use assets and operating lease liabilities (current and noncurrent) in the condensed consolidated balance sheet. Finance leases are included in property and equipment and finance lease obligations in the condensed consolidated balance sheet.

ROU assets and lease liabilities are recognized based on the present value of future minimum lease payments over the lease term at commencement date. As most of the Company’s leases do not provide an implicit rate, Management used the Company’s collateralized incremental borrowing rate based on the information available at commencement date in determining the present value of future payments.

The lease payment terms may include fixed payment terms and variable payments. Fixed payment terms and variable payments that depend on an index (i.e., Consumer Price Index, or “CPI”) or rate are considered in the determination of the operating lease liabilities. While lease liabilities are not remeasured because of changes to the CPI, changes are treated as variable lease payments and recognized in the period in which the obligation for those payments was incurred. Variable payments that do not depend on an index or rate are not included in the lease liabilities determination. Rather, these payments are recognized as variable lease expense when incurred. Expenses related to leases with a lease term of one month or less are recognized as variable lease expense when incurred. Variable lease payments are included within operating costs and expenses in the condensed consolidated statement of operations.

Due to the significant assumptions and judgements required in accounting for leases (to include whether a contract contains a lease, the allocation of the consideration, and the determination of the discount rate), the judgements and estimates made could have a significant effect on the amount of assets and liabilities recognized.

Total components of operating lease expense for the real property asset class (in thousands) were as follows:

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Operating lease expense	\$ 1,365	\$ 2,769
Variable lease expense	684	1,375
Total lease expense	\$ 2,049	\$ 4,144

Other information related to operating leases as of June 30, 2019 was as follows:

Weighted average remaining lease term, in years	2.71
Weighted Average Discount Rate	5.9%

Future minimum lease payments under operating leases as of June 30, 2019 (in thousands) were as follows:

	Operating Leases
Remainder of 2019	\$ 2,989
2020	4,253
2021	2,535
2022	1,269
2023	527
Thereafter	142
Total future minimum lease payments	11,715
Less: imputed interest	(1,001)
Total	\$ 10,714
Current portion operating lease liabilities	\$ 4,881
Non-Current operating lease liabilities	5,833
Total	\$ 10,714

As previously disclosed in our 2018 Form 10-K under the prior guidance of ASC 840, future minimum payments under operating lease agreements as of December 31, 2018 (in thousands) were as follows:

Year Ending December 31,	Operating Leases
2019	\$ 5,896
2020	3,878
2021	2,259
2022	917
2023	290
Thereafter	33
Total minimum lease payments	\$ 13,273

9. Notes Payable – Long Term –

	June 30, 2019	December 31, 2018
Subsidiary subordinated note payable to seller with monthly interest only payments at 6%, guaranteed by PQH, maturing August 5, 2022 when the principal balance is due.	\$ 789,216	\$ 789,216
Subsidiary note payable to a financial institution, with monthly principal and interest payments of \$6,692, bearing interest at 5.5%, secured by substantially all assets of the subsidiary, and maturing January 4, 2024.	327,383	—
Total	1,116,599	789,216
Less current maturities	(63,616)	—
	\$ 1,052,983	\$ 789,216

The Company is party to a Credit Agreement with a financial institution entered into on April 22, 2016 and subject to subsequent amendments. The Credit Agreement provides the Company with a revolving line of credit facility in an aggregate amount up to \$3,000,000, with a maturity date of April 21, 2020 and an acquisition loan facility in an aggregate amount of up to \$9,000,000, with a maturity date of April 21, 2020. The revolver and the acquisition loan facility bear interest at a floating per annum rate equal to one-month LIBOR plus 3.50%, adjusted on a monthly basis. Funds advanced under the acquisition loan facility mature five years from the date of advance. At June 30, 2019, the entire \$12,000,000 of credit was available under the credit facilities. See Note 16 for additional terms and conditions related to the Credit Agreement.

10. Income Taxes –

The provision for income taxes is 20.1% and (552.6)% of income (loss) before the provision for income taxes for the six month period ended June 30, 2019 and 2018, respectively. The significant difference in rate is the result of the impact of net income attributable to noncontrolling interests not being subjected to income tax at the corporate level. Rather the “passthrough” taxable income is taxed to the noncontrolling interests at an individual level.

11. Cash Dividends –

Date Declared	Record Date	Dividend Per Share	Payment Date	Dividend Paid
February 12, 2019	March 1, 2019	\$0.05	March 11, 2019	\$469,434
May 2, 2019	May 23, 2019	\$0.05	June 3, 2019	\$469,434

12. Revenue –

Revenue generated from contracts with customers and recognized per ASC 606 primarily consists of sales of merchandise and services at the point of sale and back-end compensation from Cricket Wireless. As an authorized dealer, we earn compensation from Cricket Wireless for activating a new customer on the Cricket Wireless network, activating new devices for existing Cricket Wireless customers and upon an existing Cricket Wireless customer whom we originally activated on the Cricket Wireless GSM network making a continuing service payment (“CSP”). Revenue generated from short-term lending agreements and investments are recognized in accordance with ASC 825.

Total net sales of merchandise, which exclude sales taxes, are generally recorded as follows:

- Cellular Retail – net sales reflects the transaction price at point of sale when payment is received and the customer takes control of the merchandise. The sale and activation of a wireless device also correlates to the recording of back-end compensation from Cricket Wireless. Sales returns are generally not material to our financial statements.
- Direct to Consumer – net sales reflects the transaction price when product is shipped to customers, FOB shipping point, reduced by variable consideration. Shipping and handling fees when charged to customers are also included in total net sales. Variable consideration is comprised of estimated future returns and merchandise credits which are estimated based primarily on historical rates and sales levels.
- Consumer Finance - net sales reflects the transaction price at point of sale when payment in full is received and the customer takes control of the merchandise. Sales returns are generally not material to our financial statements.

Services revenue is generally recorded at point of sale when payment is received and the customer receives the benefit of the service. Other compensation from Cricket Wireless is recorded at the time certain Cricket Wireless customers make a service payment, as reported to us by Cricket Wireless.

Consumer Finance loan fees and interest on cash advance loans are recognized on a constant-yield basis ratably over a loan’s term. Installment loan fees and interest are recognized using the interest method, except that installment loan origination fees are recognized as they become non-refundable and installment loan maintenance fees are recognized when earned. The Company recognizes fees on pawn loans on a constant-yield basis ratably over the loans’ terms, less an estimated amount for expected forfeited pawn loans which is based primarily on historical forfeiture rates.

See Note 15, “Segment Information,” for disaggregation of revenue by segment.

13. Acquisitions –

On February 21, 2019, PQH entered into a joint venture agreement with another Cricket Wireless dealer (“dealer”). Pursuant to the agreement, PQH contributed a note payable in exchange for a 51% ownership interest in the newly formed subsidiary Summit JV, LLC (“Summit”) and dealer contributed substantially all its assets, including 28 Cricket Wireless retail locations, and specified liabilities in exchange for a 49% ownership interest in Summit and receipt of the note payable contributed by PQH. Effective March 1, 2019, we consummated the transaction. Under the purchase method of accounting, the assets acquired and liabilities assumed were recorded at their estimated fair values as of the purchase date as follows:

	March 1, 2019	
	(in thousands)	
Cash	\$	14
Receivables		272
Inventory		50
Property and equipment		596
Operating lease right-of-use asset		772
Other assets		48
Liabilities		(597)
Term note payable		(348)
Operating lease liabilities		(772)
Net equity	\$	<u>35</u>

14. Other Operating Expense –

A breakout of other expense is as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Bank fees	\$ 539,586	\$ 533,813	\$ 1,044,567	\$ 1,036,377
Collection costs	82,637	81,587	160,352	166,192
Insurance	178,346	198,334	366,642	403,629
Management and advisory fees	211,002	196,799	413,148	390,509
Professional and consulting fees	236,183	361,915	789,805	905,011
Supplies	144,219	170,054	282,811	387,490
Loss on disposal	12,613	464,055	11,198	646,765
Other	616,692	574,088	1,217,347	1,339,912
	<u>\$ 2,021,278</u>	<u>\$ 2,580,645</u>	<u>\$ 4,285,870</u>	<u>\$ 5,275,885</u>

15. Segment Information –

Segment information related to the three and six month periods ended June 30, 2019 and 2018 (in thousands) is as follows:

Three Months Ended June 30, 2019

	Cellular Retail	Direct to Consumer	Consumer Finance	Corporate	Total
Revenue from external customers	\$ 16,283	\$ 11,473	\$ 414	\$ —	\$ 28,170
Financing fees and interest	—	—	1,986	—	1,986
Total revenue	\$ 16,283	\$ 11,473	\$ 2,400	\$ —	\$ 30,156
Net income	\$ 441	\$ 693	\$ 228	\$ 17	\$ 1,379
Expenditures for segmented assets	\$ 93	\$ 33	\$ —	\$ —	\$ 126

Three Months Ended June 30, 2018

	Cellular Retail	Direct to Consumer	Consumer Finance	Corporate	Total
Revenue from external customers	\$ 15,604	\$ 11,709	\$ 395	\$ —	\$ 27,708
Financing fees and interest	—	—	2,072	—	2,072
Total revenues	\$ 15,604	\$ 11,709	\$ 2,467	\$ —	\$ 29,780
Net income (loss)	\$ (481)	\$ 525	\$ 220	\$ (163)	\$ 101
Expenditures for segmented assets	\$ 109	\$ 76	\$ 14	\$ —	\$ 199

Six Months Ended June 30, 2019

	Cellular Retail	Direct to Consumer	Consumer Finance	Corporate	Total
Revenue from external customers	\$ 32,784	\$ 22,414	\$ 815	\$ —	\$ 56,013
Financing fees and interest	—	—	4,101	—	4,101
Total revenues	\$ 32,784	\$ 22,414	\$ 4,916	\$ —	\$ 60,114
Net income (loss)	\$ 1,012	\$ 1,343	\$ 462	\$ (138)	\$ 2,679
Total segment assets	\$ 34,063	\$ 10,945	\$ 8,844	\$ 35,153	\$ 89,005
Expenditures for segmented assets	\$ 322	\$ 67	\$ —	\$ —	\$ 389

Six Months Ended June 30, 2018

	Cellular Retail	Direct to Consumer	Consumer Finance	Corporate	Total
Revenue from external customers	\$ 32,711	\$ 22,390	\$ 891	\$ —	\$ 55,992
Financing fees and interest	—	—	4,247	—	4,247
Total revenues	\$ 32,711	\$ 22,390	\$ 5,138	\$ —	\$ 60,239
Net income (loss)	\$ (856)	\$ 854	\$ 551	\$ (434)	\$ 115
Total segment assets	\$ 26,397	\$ 12,396	\$ 7,297	\$ 34,071	\$ 80,161
Expenditures for segmented assets	\$ 226	\$ 386	\$ 14	\$ —	\$ 626

16. Commitments and Contingencies –

Employment Agreements

Pursuant to the Company's numerous employment agreements, bonuses of approximately \$159,000 and \$317,000 were accrued for the three and six month period ended June 30, 2019.

Credit Facility

The Company is party to a Credit Agreement with a financial institution. Certain Company subsidiaries are guarantors of the borrowings and obligations under the Credit Agreement. All borrowings under the Credit Agreement are secured by substantially all assets of WCR and the guarantor subsidiaries.

The Credit Agreement, as amended, requires WCR to meet a minimum liquidity covenant. Subject to certain exceptions, the Credit Agreement contains covenants limiting the Company's ability to (or to permit the guarantor subsidiaries to) merge or consolidate with, or engage in a sale of substantially all assets to, any party, but WCR or any guarantor subsidiary generally may nonetheless merge with another party if (i) WCR or guarantor subsidiary is the entity surviving such merger, and (ii) immediately after giving effect to such merger, no default shall have occurred and be continuing under the Credit Agreement. Subject to certain exceptions, the Credit Agreement also contains covenants limiting WCR's ability to (or to permit the guarantor subsidiaries to) create liens on assets, incur additional indebtedness, make certain types of investments, and pay dividends or make certain other types of restricted payments, but WCR may nonetheless pay dividends to its shareholders if (a) there are no outstanding loans or unpaid interest under the revolving credit facility, and (b) no default shall have occurred and be continuing under the Credit Agreement. Some covenant waivers were granted by the financial institution during the period ended June 30, 2018.

Assigned Leases

The Company's Cellular Retail segment has transferred operations of 37 locations to other dealers. Minimum lease payments of assigned or assumed non-cancelable operating leases related to transferred locations in which a release has not been obtained from the lessor are approximately \$2,375,000 as of June 30, 2019.

17. Subsequent Events –

Dividend Declared

Our Board of Directors declared the following dividend:

Date Declared	Record Date	Dividend Per Share	Payment Date
August 1, 2019	August 23, 2019	\$0.05	September 3, 2019

Entry into Definitive Agreements

On July 25, 2019, Summit, a 51% owned indirect subsidiary of the Company, entered into a joint venture agreement with another Cricket Wireless authorized dealer. Pursuant to the agreement, Summit will contribute \$500,000 for a 100% ownership interest in the newly formed subsidiary Smart Acquisition, LLC (“Smart”), followed by dealer contributing substantially all its assets, including 21 Cricket Wireless retail locations, and specified liabilities in exchange for \$500,000 from and a 25% ownership interest in Smart. Upon completion of the transaction Summit will have a 75% ownership interest in Smart.

On August 9, 2019, Summit, a 51% owned indirect subsidiary of the Company, entered into a joint venture agreement with another Cricket Wireless authorized dealer. Pursuant to the agreement, Summit will contribute \$900,000 for a 100% ownership interest in the newly formed subsidiary Linked Investment, LLC (“Linked”), followed by dealer contributing substantially all its assets, including 14 Cricket Wireless retail locations, and specified liabilities in exchange for \$100,000 from and a 25% ownership interest in Linked. Upon completion of the transaction Summit will have a 75% ownership interest in Linked.

We evaluated all events or transactions that occurred after June 30, 2019 up through the date we issued these financial statements. During this period we did not have any other material subsequent events that impacted our financial statements.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

Some of the statements made in this report are “forward-looking statements,” as that term is defined under Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are based upon our current expectations and projections about future events. Whenever used in this report, the words “believe,” “anticipate,” “intend,” “estimate,” “expect,” “will” and similar expressions, or the negative of such words and expressions, are intended to identify forward-looking statements, although not all forward-looking statements contain such words or expressions. The forward-looking statements in this report are primarily located in the material set forth under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (Part I, Item 2), but may be found in other parts of this report as well. These forward-looking statements generally relate to our plans, objectives and expectations for future operations and are based upon management’s current estimates and projections of future results or trends. Although we believe that our plans and objectives reflected in or suggested by these forward-looking statements are reasonable, we may not achieve these plans or objectives. You should read this report completely and with the understanding that actual future results may be materially different from what we expect. We are not undertaking any obligation to update any forward-looking statements even though our situation may change in the future.

Specific factors that might cause actual results to differ from our expectations embodied in our forward-looking statements, or that might affect the value of the common stock, include but are not limited to:

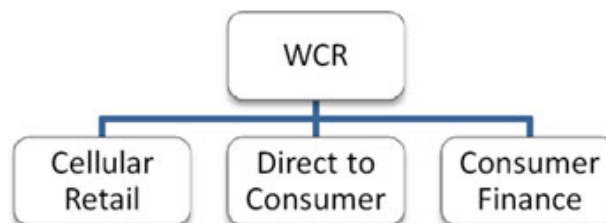
- the seasonal nature of the products sold in our Direct to Consumer segment - a significant portion of pre-tax net income contributed by the segment is earned during the months of March through May and December, consequently the third quarter of each year typically results in a net loss;
- the success of new stores in the Cellular Retail segment;
- changes in federal, state or local laws and regulations governing lending practices, or changes in the interpretation of such laws and regulations;
- litigation and regulatory actions directed toward us or the industries in which we operate, particularly in certain key states or nationally;
- our need for additional financing;
- changes in our authorization to be a dealer for Cricket Wireless;
- changes in Cricket dealer compensation;
- lack in advertising support and sales promotions from Cricket Wireless in the markets we operate;
- free shipping pressure on our Direct to Consumer segment;
- failure of or disruption caused by a significant vendor;
- outside factors that affect our ability to obtain product and fulfill orders;
- our ability to successfully operate or integrate recent or future business acquisitions; and
- unpredictability or uncertainty in financing markets which could impair our ability to grow our business through acquisitions.

Other factors that could cause actual results to differ from those implied by the forward-looking statements in this report are more fully described in the “Risk Factors” section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Industry data and other statistical information used in this report are based on independent publications, government publications, reports by market research firms or other published independent sources. Some data is also based on our good faith estimates, derived from our review of internal surveys and the independent sources listed above. Although we believe these sources are reliable, we have not independently verified the information.

OVERVIEW

Western Capital Resources, Inc. (“WCR”), a Delaware corporation originally incorporated in Minnesota in 2001 and reincorporated in Delaware in 2016, is a holding company having a controlling interest in subsidiaries operating in the following industries and operating segments:



Our Cellular Retail segment is comprised of an authorized Cricket Wireless dealer and involves the retail sale of cellular phones and accessories to consumers through our wholly owned subsidiary PQH Wireless, Inc. and its subsidiaries, one of which is 70% owned and one of which is 51% owned. Our Direct to Consumer segment consists of a wholly owned online and direct marketing distribution retailer of live plants, seeds, holiday gifts and garden accessories selling its products under Park Seed, Jackson & Perkins and Wayside Gardens brand names and home improvement and restoration products operating as Van Dyke’s Restorers as well as a wholesaler under the Park Wholesale brand. Our Consumer Finance segment consists of retail financial services conducted through our wholly owned subsidiaries Wyoming Financial Lenders, Inc. and Express Pawn, Inc. Throughout this report, we collectively refer to WCR and its consolidated subsidiaries as “we,” the “Company,” and “us.”

Discussion of Critical Accounting Policies

Our condensed consolidated financial statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America applied on a consistent basis. The preparation of these condensed consolidated financial statements requires us to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. We evaluate these estimates and assumptions on an ongoing basis. We base these estimates on the information currently available to us and on various other assumptions that we believe are reasonable under the circumstances. Actual results could vary materially from these estimates under different assumptions or conditions.

Our significant accounting policies are discussed in Note 1, “Basis of Presentation, Nature of Business and Summary of Significant Accounting Policies,” of the notes to our condensed consolidated financial statements included in this report. We believe that the following critical accounting policies affect the more significant estimates and assumptions used in the preparation of our condensed consolidated financial statements.

Receivables and Loss Allowance

Direct to Consumer

Receivables are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts, represents their estimated net realizable value. The allowance for doubtful accounts is estimated based on historical collection trends, type of customer, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. Past due receivable balances are written-off when internal collection efforts have been unsuccessful in collecting the amount due.

Consumer Finance

Included in loans receivable are unpaid principal, interest and fee balances of payday, installment and pawn loans that have not reached their maturity date, and “late” payday loans that have reached maturity within the last 180 days and have remaining outstanding balances. Late payday loans generally are unpaid loans where a customer’s personal check has been deposited and the check has been returned due to non-sufficient funds in the customer’s account, a closed account, or other reasons. All returned items are charged-off after 180 days, as collections after that date have not been significant. Loans are carried at cost plus accrued interest or fees less payments made and a loans receivable allowance.

We do not specifically reserve for any individual payday or installment loan. Instead, we aggregate loan types for purposes of estimating the loss allowance using a methodology that analyzes historical portfolio statistics and management’s judgment regarding recent trends noted in the portfolio. This methodology takes into account several factors, including (1) the amount of loan principal, interest and fee outstanding, (2) historical charge offs from loans that originated during the last 24 months, (3) current and expected collection patterns and (4) current economic trends. We utilize a software program to assist with the tracking of our historical portfolio statistics. A loan loss allowance is maintained for anticipated losses for payday and installment loans based primarily on our historical percentages by loan type of net charge offs, applied against the applicable balance of loan principal, interest and fees outstanding. We also periodically perform a look-back analysis on our loan loss allowance to verify the historical allowance established tracks with the actual subsequent loan write-offs and recoveries. We are aware that as conditions change, we may also need to make additional allowances in future periods. Loan losses or charge-offs of pawn loans are not recorded because the value of the collateral exceeds the loan amount.

See Note 4, “Loans Receivable,” and Note 5, “Loans Receivable Allowance,” of the notes to our consolidated financial statements included in this report for our outstanding loans receivable aging and loans receivable allowance rollforward as of and for the six months ended June 30, 2019 and the year ended December 31, 2018.

Valuation of Long-lived and Intangible Assets

We assess the possibility of impairment of long-lived assets, other than goodwill, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that could trigger an impairment review include significant underperformance relative to expected historical or projected future cash flows, significant changes in the manner of use of acquired assets or the strategy for the overall business, and significant negative industry events or trends.

Goodwill

Goodwill represents the excess of acquisition cost over the fair value of identifiable finite lived net assets acquired and is not amortized. Goodwill is tested for impairment annually as of October 1, or more frequently if events or changes in circumstances indicate potential impairment. We test for goodwill impairment at the reporting unit level, which aligns with the Company’s segments. We perform a qualitative assessment to determine if a quantitative impairment test is necessary. If quantitative testing is necessary based on a qualitative assessment, we apply a fair value test. This fair value test involves a two-step process. The first step is to compare the carrying value of our net assets to our fair value. If the fair value is determined to be less than the carrying value, a second step is performed to measure the amount of the impairment, if any.

Operating Leases

We adopted ASC 842 - Leases, using the modified retrospective method on January 1, 2019. We elected the package of practical expedients relief option offered in ASU 2016-02 and the accounting policy election for lessees not to separate lease and non-lease components (election applies to leased real property asset class). We have many retail and office space lease agreements and insignificant equipment lease agreements which are accounted for as operating leases. The real property leases typically are for three- to five-year terms with many containing options for similar renewal periods. We determine if an arrangement is or contains a lease at inception.

Under ASC 842, we recognize right-of-use (“ROU”) assets and lease liabilities for operating leases. ROU assets and lease liabilities are recognized at commencement date based on the present value of future minimum lease payments over the lease term. As most of our leases do not provide an implicit rate, we use WCR’s collateralized incremental borrowing rate based on the information available at commencement date in determining the present value of future payments.

The lease payment terms may include fixed payment terms and variable payments. Fixed payment terms and variable payments that depend on an index (i.e., Consumer Price Index, or “CPI”) or rate are considered in the determination of the operating lease liabilities. While lease liabilities are not remeasured because of changes to the CPI, changes are treated as variable lease payments and recognized in the period in which the obligation for those payments was incurred. Variable payments that do not depend on an index or rate are not included in the lease liabilities determination. Rather, these payments are recognized as variable lease expense when incurred. Expenses related to leases with a lease term of one month or less are recognized as variable lease expense when incurred. Variable lease payments are included within operating costs and expenses in our condensed consolidated statement of operations.

Due to the significant assumptions and judgements required in accounting for leases (to include whether a contract contains a lease, the allocation of the consideration, and the determination of the discount rate), the judgements and estimates made could have a significant effect on the amount of assets and liabilities recognized.

Results of Operations – Three Months Ended June 30, 2019 Compared to Three Months Ended June 30, 2018

Net income attributable to our common shareholders was \$1.13 million, or \$0.12 per share (basic and diluted), for the quarter ended June 30, 2019, compared to net loss of \$(0.09) million, or \$(0.01) per share (basic and diluted), for the quarter ended June 30, 2018.

We expect segment operating results and earnings per share to change throughout 2019 due, at least in part, to the seasonality of the Direct to Consumer and Cellular Retail segments and potential mergers and acquisitions activity.

Following is a discussion of operating results by segment.

The following table provides revenues and net income attributable to WCR common shareholders for the quarters ended June 30, 2019 and June 30, 2018 (in thousands).

	Cellular Retail	Direct to Consumer	Consumer Finance	Corporate	Total
Three Months Ended June 30, 2019					
Revenue	\$ 16,283	\$ 11,473	\$ 2,400	\$ —	\$ 30,156
% of total revenue	54.0%	38.0%	8.0%	-%	100.0%
Net income	\$ 441	\$ 693	\$ 228	\$ 17	\$ 1,379
Net income attributable to noncontrolling interests	\$ 248	\$ —	\$ —	\$ —	\$ 248
Net income attributable to WCR common shareholders	\$ 193	\$ 693	\$ 228	\$ 17	\$ 1,131
Three Months Ended June 30, 2018					
Revenue	\$ 15,604	\$ 11,709	\$ 2,467	\$ —	\$ 29,780
% of total revenue	52.4%	39.3%	8.3%	-%	100.0%
Net income (loss)	\$ (481)	\$ 525	\$ 220	\$ (163)	\$ 101
Net income attributable to noncontrolling interests	\$ 188	\$ —	\$ —	\$ —	\$ 188
Net income (loss) attributable to WCR common shareholders	\$ (669)	\$ 525	\$ 220	\$ (163)	\$ (87)

Cellular Retail

A summary table of the number of Cricket Wireless retail stores we operated during the three months ended June 30, 2019 and 2018 follows:

	2019	2018
Beginning	201	236
Acquired/ Launched	—	—
Closed/Transferred	—	(11)
Ending	<u>201</u>	<u>225</u>

Evident from the operating results year over year is our progress made to shed underperforming stores and further consolidate within markets. Net income (loss) attributable to shareholders increased from a loss of \$(0.67) million in the comparable prior year quarter to a positive \$0.19 million in the current quarter.

Direct to Consumer

The Direct to Consumer segment has seasonal sources of revenue and historically experiences a greater proportion of annual revenue and net income in the months of March through May and December due to the seasonal products it sells. For the current quarter, the Direct to Consumer segment had net income of \$0.69 million compared to net income of \$0.53 million for the comparable prior year period. Revenues for the three month period ended June 30, 2019 were \$11.47 million compared to \$11.71 million for the comparable period in 2018.

Consumer Finance

A summary table of the number of consumer finance locations we operated during the quarters ended June 30, 2019 and 2018 follows:

	2019	2018
Beginning	39	41
Acquired/ Launched	—	—
Closed	—	—
Ending	<u>39</u>	<u>41</u>

Our Consumer Finance segment revenues decreased \$0.07 million, or 2.7%, for the quarter ended June 30, 2019 compared to the quarter ended June 30, 2018. This segment and the industry continues to experience declines in loan and check cashing activity. The decline in volume is having a direct impact on operating results. Our net income decreased 3.64% period over period.

Corporate

Net income related to our Corporate segment was \$0.02 million for the quarter ended June 30, 2019 compared to a net cost of \$0.16 million for the quarter ended June 30, 2018. The period over period difference is due to a combination of lower net corporate overhead expense and an increase in investment income.

Results of Operations – Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018

Net income attributable to our common shareholders was \$2.18 million, or \$0.23 per share (basic and diluted), for the six months ended June 30, 2019, compared to net loss of \$(0.26) million, or \$(0.03) per share (basic and diluted), for the six months ended June 30, 2018.

We expect segment operating results and earnings per share to change throughout 2019 due, at least in part, to the seasonality of the Direct to Consumer and Cellular Retail segments and potential mergers and acquisitions activity.

Following is a discussion of operating results by segment.

The following table provides revenues and net income attributable to WCR common shareholders by continuing operating segment for the six month periods ended June 30, 2019 and June 30, 2018 (in thousands).

	Cellular Retail	Direct to Consumer	Consumer Finance	Corporate	Total
Six Months Ended June 30, 2019					
Revenue	\$ 32,784	\$ 22,414	\$ 4,916	\$ —	\$ 60,114
% of total revenue	54.5%	37.3%	8.2%	-%	100.0%
Net income (loss)	\$ 1,012	\$ 1,343	\$ 462	\$ (138)	\$ 2,679
Net income attributable to noncontrolling interests	\$ 497	\$ —	\$ —	\$ —	\$ 497
Net income attributable to WCR common shareholders	\$ 515	\$ 1,343	\$ 462	\$ (138)	\$ 2,182
Six Months Ended June 30, 2018					
Revenue	\$ 32,711	\$ 22,390	\$ 5,138	\$ —	\$ 60,239
% of total revenue	54.3%	37.2%	8.5%	-%	100.0%
Net income (loss)	\$ (856)	\$ 854	\$ 551	\$ (434)	\$ 115
Net income attributable to noncontrolling interests	\$ 373	\$ —	\$ —	\$ —	\$ 373
Net income (loss) attributable to WCR common shareholders	\$ (1,229)	\$ 854	\$ 551	\$ (434)	\$ (258)

Cellular Retail

A summary table of the number of Cricket Wireless retail stores we operated during the six months ended June 30, 2019 and 2018 follows:

	2019	2018
Beginning	205	278
Acquired/ Launched	31	1
Closed/Transferred	(35)	(54)
Ending	<u>201</u>	<u>225</u>

The strategic initiative that began in 2017 to shed underperforming locations and to consolidate within markets is allowing us to more effectively focus our efforts on a better mix of stores. These actions have resulted in an \$1.74 million increase in net income applicable to our shareholders from the net loss in the comparable prior year-to-date period.

Direct to Consumer

The Direct to Consumer segment has seasonal sources of revenue and historically experiences a greater proportion of annual revenue and net income in the months of March through May and December due to the seasonal products it sells. For the six months ended June 30, 2019, the Direct to Consumer segment had net income of \$1.34 million compared to net income of \$0.85 million for the comparable prior year period. Revenues for the six month period ended June 30, 2019 were \$22.41 million compared to \$22.39 million for the comparable period in 2018.

Consumer Finance

A summary table of the number of consumer finance locations we operated during the quarters ended June 30, 2019 and 2018 follows:

	2019	2018
Beginning	41	41
Acquired/ Launched	—	—
Closed	(2)	—
Ending	<u>39</u>	<u>41</u>

Our Consumer Finance segment revenues decreased \$0.22 million, or 4.3%, for the six month period ended June 30, 2019 compared to the six month period ended June 30, 2018. This segment and the industry continues to experience declines in loan and check cashing activity. The decline in volume is having a direct impact on operating results. Our net income period over period decreased 16.15%.

Corporate

Net expenses related to our Corporate segment were \$0.14 million for the six month period ended June 30, 2019 compared to net expenses of \$0.43 million for the quarter ended June 30, 2018. The period over period difference is due to a combination of lower net corporate overhead expense and an increase in investment income.

Consolidated Income Tax Expense

Provision for income tax expense for continuing operations for the six month period ended June 30, 2019 was \$0.68 million compared to income tax benefit of (\$0.14) million for the six month period ended June 30, 2018 for an effective rate of 20.1% and 552.6%, respectively. The significant difference in rate is the result of the impact of net income attributable to noncontrolling interests not being subjected to income tax at the corporate level. Rather, the “passthrough” taxable income is taxed to the noncontrolling interests at an individual level.

Liquidity and Capital Resources

Summary cash flow data is as follows:

	<u>Six Months Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>
Cash flows provided (used) by:		
Operating activities	\$ 1,599,099	\$ (19,044,820)
Investing activities	(231,027)	9,466,901
Financing activities	(1,738,849)	(1,353,955)
Net decrease in cash and cash equivalents	(370,777)	(10,931,874)
Cash and cash equivalents, beginning of period	16,724,983	21,295,819
Cash and cash equivalents, end of period	<u>\$ 16,354,206</u>	<u>\$ 10,363,945</u>

At June 30, 2019, we had cash and cash equivalents of \$16.35 million and highly liquid investments of \$24.53 million compared to cash and cash equivalents of \$10.36 million and highly liquid investments of \$25.42 million on June 30, 2018. We believe that our available cash, combined with expected cash flows from operations and our held-to-maturity investments, will be sufficient to fund our liquidity and capital expenditure requirements through June of 2020. We also have a \$3,000,000 revolving credit facility and a \$9,000,000 acquisition credit facility available to us. Our expected short-term uses of available cash include the funding of operating activities, the payment of dividends and use in acquisitions.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of June 30, 2019.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in our reports filed pursuant to the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance the objectives of the control system are met.

We utilize the Committee of Sponsoring Organization's *Internal Control – Integrated Framework, 2013 version*, for the design, implementation and assessment of the effectiveness of our disclosure controls and procedures and internal control over financial reporting.

As of June 30, 2019, our Chief Executive Officer and Chief Financial Officer carried out an assessment of the effectiveness of our disclosure controls and procedures as such term is defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934. Based on this assessment, our Chief Executive Officer and Chief Financial Officer concluded our disclosure controls and procedures are effective as of June 30, 2019.

Changes in Internal Control over Financial Reporting

On January 1, 2019, we adopted ASC 842, Leases, which required us to make changes to our policies, update our processes, and modify existing internal controls over financial reporting. Other than these changes to support the implementation of ASC 842, there were no other changes in our internal control over financial reporting during the quarter ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

The following table provides information about purchases of Western Capital Resources, Inc. common stock by us during the three months ended June 30, 2019.

Share Repurchases					
Period Beginning	Period Ending	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Board Approved Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Program ⁽¹⁾
April 1, 2019	April 30, 2019	—	\$ —	—	\$ 990,300
May 1, 2019	May 31, 2019	—	—	—	\$ 990,300
June 1, 2019	June 30, 2019	—	—	—	\$ 990,330
		—	\$ —	—	—

- (1) On September 13, 2018, our Board of Directors authorized a share repurchase program under which we may repurchase up to \$1 million of common stock, provided that the per share price of any purchase shall not exceed \$5.00 per share. Repurchases may be made from time to time on the open market or through privately negotiated transactions.

Item 6. Exhibits

Exhibit	Description
<u>31.1</u>	<u>Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).</u>
<u>31.2</u>	<u>Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).</u>
<u>32</u>	<u>Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).</u>
101.INS	XBRL Instance Document (filed herewith).
101.SCH	XBRL Schema Document (filed herewith).
101.CAL	XBRL Calculation Linkbase Document (filed herewith).
101.DEF	XBRL Definition Linkbase Document (filed herewith).
101.LAB	XBRL Label Linkbase Document (filed herewith).
101.PRE	XBRL Presentation Linkbase Document (filed herewith).

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: August 14, 2019

Western Capital Resources, Inc.
(Registrant)

By: /s/ John Quandahl
John Quandahl
Chief Executive Officer and Chief Operating Officer

By: /s/ Angel Donchev
Angel Donchev
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

Certification

I, John Quandahl, Chief Executive Officer of Western Capital Resources, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Western Capital Resources, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a 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 this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Dated: August 14, 2019

/s/ John Quandahl

JOHN QUANDAHL
Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

Certification

I, Angel Donchev, Chief Financial Officer of Western Capital Resources, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Western Capital Resources, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a 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 this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Dated: August 14, 2019

/s/ Angel Donchev
ANGEL DONCHEV
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Western Capital Resources, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John Quandahl, Chief Executive Officer of the Company and I, Angel Donchev, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John Quandahl
John Quandahl
Chief Executive Officer
August 14, 2019

/s/ Angel Donchev
Angel Donchev
Chief Financial Officer
August 14, 2019