
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 March 31, 2017

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 "T" 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)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

Non-accelerated filer

Smaller reporting company

Emerging growth 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

APPLICABLE ONLY TO CORPORATE ISSUERS

As of May 15, 2017, the registrant had outstanding 9,390,997 shares of common stock, \$0.001 par value per share.

Western Capital Resources, Inc.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

WESTERN CAPITAL RESOURCES, INC. AND SUBSIDIARIES

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

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 11,208,398	\$ 14,159,975
Loans receivable (less allowance for losses of \$880,000 and \$1,036,000, respectively)	3,529,939	4,438,276
Accounts receivable (less allowance for losses of \$123,000 and \$96,000, respectively)	3,408,305	1,716,867
Inventory	10,342,291	9,095,460
Prepaid expenses and other	4,346,777	3,727,284
TOTAL CURRENT ASSETS	<u>32,835,710</u>	<u>33,137,862</u>
NOTES RECEIVABLE	3,437,956	2,920,112
PROPERTY AND EQUIPMENT, net	10,086,273	9,696,620
GOODWILL	5,796,528	5,796,528
INTANGIBLE ASSETS, net	7,396,426	7,536,945
OTHER	<u>1,220,022</u>	<u>1,122,585</u>
TOTAL ASSETS	<u>\$ 60,772,915</u>	<u>\$ 60,210,652</u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 11,805,009	\$ 13,002,381
Other current liabilities	2,065,419	2,242,372
Income taxes payable	1,614,644	265,813
Note payable – short-term	30,020	55,819
Current portion long-term debt	1,780,000	1,780,000
Current portion capital lease obligations	47,100	54,020
Deferred revenue	1,819,987	1,427,358
TOTAL CURRENT LIABILITIES	<u>19,162,179</u>	<u>18,827,763</u>
LONG-TERM LIABILITIES		
Notes payable, net of current portion	7,326,332	8,681,545
Capital lease obligations, net of current portion	82,102	94,762
Deferred income taxes	1,812,000	1,775,000
Other	162,272	143,080
TOTAL LONG-TERM LIABILITIES	<u>9,382,706</u>	<u>10,694,387</u>
TOTAL LIABILITIES	<u>28,544,885</u>	<u>29,522,150</u>
COMMITMENTS AND CONTINGENCIES (Note 12)		
EQUITY		
WESTERN SHAREHOLDERS' EQUITY		
Common stock, \$0.001 par value, 12,500,000 shares authorized, 9,390,997 and 9,497,871 shares issued and outstanding.	939	950
Additional paid-in capital	29,008,229	28,997,087
Retained earnings	3,190,543	1,643,996
TOTAL WESTERN SHAREHOLDERS' EQUITY	<u>32,199,711</u>	<u>30,642,033</u>
NONCONTROLLING INTERESTS	<u>28,319</u>	<u>46,469</u>
TOTAL EQUITY	<u>32,228,030</u>	<u>30,688,502</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 60,772,915</u>	<u>\$ 60,210,652</u>

See notes to condensed consolidated financial statements

WESTERN CAPITAL RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	Three Months Ended	
	March 31, 2017	March 31, 2016
REVENUES		
Sales and associated fees	\$ 24,559,130	\$ 20,015,542
Financing fees and interest	2,233,409	2,484,220
Royalty and franchise fees, net	3,032,626	2,794,756
Other revenue	5,809,841	3,140,768
	<u>35,635,006</u>	<u>28,435,286</u>
COST OF REVENUES		
Cost of sales	12,058,754	10,437,885
Provisions for loans receivable losses	237,581	302,872
Other	648,197	553,414
	<u>12,944,532</u>	<u>11,294,171</u>
GROSS PROFIT	22,690,474	17,141,115
OPERATING EXPENSES		
Salaries, wages and benefits	9,991,391	6,748,950
Occupancy	2,954,056	1,970,527
Advertising, marketing and development	2,009,150	1,951,009
Depreciation	350,288	276,592
Amortization	140,519	140,990
Other	3,540,669	2,742,504
	<u>18,986,073</u>	<u>13,830,572</u>
OPERATING INCOME	3,704,401	3,310,543
OTHER INCOME (EXPENSES):		
Interest income	64,075	1,052
Interest expense	(138,152)	(169,011)
	<u>(74,077)</u>	<u>(167,959)</u>
INCOME BEFORE INCOME TAXES	3,630,324	3,142,584
INCOME TAX EXPENSE	1,363,000	1,167,000
NET INCOME	2,267,324	1,975,584
Less net income attributable to noncontrolling interests	(5,085)	(4,185)
NET INCOME ATTRIBUTABLE TO WESTERN COMMON SHAREHOLDERS	\$ 2,262,239	\$ 1,971,399
EARNINGS PER SHARE ATTRIBUTABLE TO WESTERN COMMON SHAREHOLDERS		
Basic and diluted	<u>\$ 0.24</u>	<u>\$ 0.21</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
Basic and diluted	<u>9,472,934</u>	<u>9,497,534</u>

See notes to condensed consolidated financial statements

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

	Three Months Ended	
	March 31, 2017	March 31, 2016
OPERATING ACTIVITIES		
Net Income	\$ 2,267,324	\$ 1,975,584
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	350,288	276,592
Amortization	140,519	140,990
Share based compensation	11,142	21,071
Deferred income taxes	37,000	344,000
Loss on disposal of property and equipment	(270)	-
Changes in operating assets and liabilities:		
Loans receivable	908,337	938,663
Accounts receivable	(1,691,438)	(1,489,252)
Inventory	(1,246,831)	(913,193)
Prepaid expenses and other assets	(716,930)	574,563
Accounts payable and accrued expenses	151,459	(1,547,364)
Deferred revenue and other current liabilities	215,676	(145,861)
Accrued liabilities and other – long-term	19,192	(2,643)
Net cash provided by operating activities	<u>445,468</u>	<u>173,150</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(754,130)	(432,211)
Acquisition of stores, net of cash acquired	-	(466,836)
Proceeds from disposal of property and equipment	14,459	-
Advances on note receivable, net	(517,844)	-
Net cash used by investing activities	<u>(1,257,515)</u>	<u>(899,047)</u>
FINANCING ACTIVITIES		
Payments on notes payable – short-term, net	(25,799)	-
Payments on line of credit, net	(853,544)	-
Payments on notes payable – long-term	(501,669)	(975,002)
Common stock redemption	(480,928)	-
Advances on capital lease	-	185,318
Payments on capital lease	(19,580)	(26,018)
Subsidiary dividends to noncontrolling interests	(23,235)	-
Dividend paid	(234,775)	-
Net cash used in financing activities	<u>(2,139,530)</u>	<u>(815,702)</u>
NET DECREASE IN CASH	(2,951,577)	(1,541,599)
CASH		
Beginning of period	14,159,975	7,847,669
End of period	<u>\$ 11,208,398</u>	<u>\$ 6,306,070</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Income taxes paid	\$ 7,169	\$ 1,483,301
Interest paid	\$ 135,686	\$ 166,131

See notes to condensed consolidated financial statements.

WESTERN CAPITAL RESOURCES, INC. AND SUBSIDIARIES

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 footnote 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 month period ended March 31, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

For further information, refer to the Condensed Consolidated Financial Statements and footnotes thereto included in our Form 10-K for the year ended December 31, 2016. The condensed consolidated balance sheet at December 31, 2016, has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes 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.

- Franchise
 - AlphaGraphics, Inc. (AGI) (99.2%) – franchisor of 253 domestic and 25 international AlphaGraphics Business Centers which specialize in the planning, production, and management of visual communications for businesses and individuals throughout the world.
- Cellular Retail
 - PQH Wireless, Inc. (PQH) (100%) – operates cellular retail stores (191 owned and operated plus 53 operated under management agreement as of March 31, 2017), 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 live plants, seeds, holiday gifts and garden accessories selling its products under Park Seed, Jackson & Perkins, and Wayside Gardens brand names as well as a wholesaler under the Park Wholesale brand.
 - Restorers Acquisition, Inc. (RAI) (100%) – an online and direct marketing distribution retailer of home improvement and restoration products operating under Van Dyke’s Restorers.
 - J & P Real Estate, LLC (JPRE) (100%) – owns real estate utilized as JPPA’s distribution and warehouse facility and the corporate offices of JPPA and RAI.
- Consumer Finance
 - Wyoming Financial Lenders, Inc. (WFL) (100%) – owns and operates “payday” stores (40 as of March 31, 2017) in seven states (Colorado, Iowa, Kansas, Nebraska, North Dakota, Wisconsin and Wyoming) 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 March 31, 2017) 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 “AGI,” “PQH,” “JPPA,” “RAI,” “JPRE,” “WFL” or “EPI” are references only to those companies.

Basis of Consolidation

The consolidated financial statements include the accounts of the 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 ASC 810 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.

Reclassifications

Certain Statements of Income reclassifications have been made in the presentation of our prior financial statements and accompanying notes to conform to the presentation as of and for the three months ended March 31, 2017.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) jointly issued a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under US GAAP and IFRS. This converged standard is effective for annual and interim periods beginning after December 15, 2017. The Company is currently assessing the potential effects on our financial condition, results of operations and consolidated financial statements.

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. This ASU is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that annual period, with early adoption permitted and to be applied using a modified retrospective approach. The Company is currently evaluating the impact the ASU will have on our financial condition, results of operations and consolidated financial statements.

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. This ASU is effective for annual reporting periods beginning after December 15, 2018 and interim periods within that annual period, with early adoption permitted and the standard to be applied using a modified retrospective approach. The Company is currently evaluating the impact the ASU will have on our financial condition, results of operations and consolidated financial statements.

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 local, state, and federal 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. The federal Consumer Financial Protection Bureau has indicated that it will use its authority to further regulate the payday industry and has been actively assessing significant penalties or seeking settlement payments.

Any adverse change in present local, state, and federal 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, 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 or state 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.

3. Loans Receivable –

The Consumer Finance segment’s outstanding loans receivable aging was as follows:

March 31, 2017				
	Payday	Installment	Pawn & Title	Total
Current	\$ 2,911,699	\$ 188,774	\$ 275,963	\$ 3,376,436
1-30	199,317	32,807	-	232,124
31-60	133,955	20,032	-	153,987
61-90	170,483	15,082	-	185,565
91-120	148,190	11,078	-	159,268
121-150	143,073	7,556	-	150,629
151-180	145,807	6,123	-	151,930
	<u>3,852,524</u>	<u>281,452</u>	<u>275,963</u>	<u>4,409,939</u>
Less Allowance	(812,000)	(68,000)	-	(880,000)
	<u>\$ 3,040,524</u>	<u>\$ 213,452</u>	<u>\$ 275,963</u>	<u>\$ 3,529,939</u>

December 31, 2016				
	Payday	Installment	Pawn & Title	Total
Current	\$ 3,683,603	\$ 272,703	\$ 284,460	\$ 4,240,766
1-30	253,297	44,433	-	297,730
31-60	201,375	27,905	-	229,280
61-90	185,072	18,747	-	203,819
91-120	159,435	15,737	-	175,172
121-150	176,625	8,889	-	185,514
151-180	134,171	7,824	-	141,995
	<u>4,793,578</u>	<u>396,238</u>	<u>284,460</u>	<u>5,474,276</u>
Less Allowance	(953,000)	(83,000)	-	(1,036,000)
	<u>\$ 3,840,578</u>	<u>\$ 313,238</u>	<u>\$ 284,460</u>	<u>\$ 4,438,276</u>

4. Loans Receivable Allowance –

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

	Three Months Ended March 31, 2017	Year Ended December 31, 2016
Loans receivable allowance, beginning of period	\$ 1,036,000	\$ 1,177,000
Provision for loan losses charged to expense	237,581	1,605,867
Charge-offs, net	(393,581)	(1,746,867)
Loans receivable allowance, end of period	<u>\$ 880,000</u>	<u>\$ 1,036,000</u>

5. Accounts Receivable –

A breakdown of accounts receivables by segment as of March 31, 2017 and December 31, 2016 are as follows:

March 31, 2017					
	Franchise	Cellular Retail	Direct to Consumer	Consumer Finance	Total
Accounts receivable	\$ 1,691,336	\$ 235,525	\$ 1,595,258	\$ 9,186	\$ 3,531,305
Less allowance	(65,000)	-	(58,000)	-	(123,000)
Net account receivable	<u>\$ 1,626,336</u>	<u>\$ 235,525</u>	<u>\$ 1,537,258</u>	<u>\$ 9,186</u>	<u>\$ 3,408,305</u>

December 31, 2016

	Franchise	Cellular Retail	Direct to Consumer	Consumer Finance	Total
Accounts receivable	\$ 1,103,210	\$ 333,800	\$ 363,426	\$ 12,431	\$ 1,812,867
Less allowance	(83,000)	-	(13,000)	-	(96,000)
Net account receivable	<u>\$ 1,020,210</u>	<u>\$ 333,800</u>	<u>\$ 350,426</u>	<u>\$ 12,431</u>	<u>\$ 1,716,867</u>

6. Operating Lease Liability –

The Company leases retail and office facilities under operating leases with terms ranging from month to month to six years, with rights to extend for additional periods. Future minimum base lease payments (in thousands) are approximately as follows:

Year Ending December 31,	Operating Leases
2017 (remainder)	\$ 5,221
2018	5,959
2019	5,060
2020	2,992
2021	2,132
Thereafter	459
Total minimum base lease payments	<u>\$ 21,823</u>

7. Notes Payable – Long Term –

	March 31, 2017	December 31, 2016
Revolving credit facility (with a credit limit of \$3,000,000) to a financial institution with monthly payments of interest only at LIBOR plus 3.5% (4.375% at March 31, 2017), secured by substantially all assets of the Company with stated guarantee amounts by subsidiaries, maturing April 21, 2018	\$ 144,882	\$ 998,426
Note payable to a financial institution with monthly principal payment of \$58,333 plus interest at LIBOR plus 3.5% (4.375% at March 31, 2017), secured by substantially all assets of the Company with stated guarantee amounts by subsidiaries, maturing April 21, 2021	2,916,667	3,091,667
Note payable to a financial institution with monthly principal payment of \$56,667 plus interest at LIBOR plus 3.5% (4.375% at March 31, 2017), secured by substantially all assets of the Company with stated guarantee amounts by subsidiaries, maturing December 1, 2021	3,173,333	3,400,000
Subsidiary note payable to a financial institution with monthly principal payment of \$33,334 plus annual paydowns equal to JPRE's net cash flow from operations due within 120 days of the calendar year end plus interest at LIBOR plus 3.5% (4.375% at March 31, 2017), secured by JPRE assets, maturing June 5, 2019 when remaining principal balance is due	2,871,450	2,971,452
Total	<u>9,106,332</u>	<u>10,461,545</u>
Less current maturities	<u>(1,780,000)</u>	<u>(1,780,000)</u>
	<u>\$ 7,326,332</u>	<u>\$ 8,681,545</u>

At March 31, 2017 approximately \$5,765,000 of credit was available under the credit facilities.

8. Equity –

In March 2017, the Company redeemed 106,874 shares of common stock for \$480,928 in a private and unsolicited transaction.

9. Cash Dividends –

Date declared	February 24, 2017
Record date	March 17, 2017
Date paid	March 24, 2017
Dividend per share of common stock	\$ 0.025

10. Other Operating Expense –

A breakout of other expense is as follows:

	For The Three Months Ended March 31,	
	2017	2016
Bank fees	\$ 550,349	\$ 438,034
Collection costs	89,894	116,188
Conference expense	289,206	265,405
Insurance	250,008	181,476
Management and advisory fees	223,481	221,025
Professional and consulting fees	811,130	595,210
Supplies	332,072	183,274
Other	994,529	741,892
	<u>\$ 3,540,669</u>	<u>\$ 2,742,504</u>

11. Segment Information –

Segment information related to the three month periods ended March 31, 2017 and 2016 is presented below:

	Three Months Ended March 31, 2017					
	(in thousands)					
	Franchise	Cellular Retail	Direct to Consumer	Consumer Finance	Corporate	Total
Revenue from external customers	\$ 3,943	\$ 17,045	\$ 11,904	\$ 2,743	\$ -	\$ 35,635
Net income (loss)	\$ 635	\$ 620	\$ 866	\$ 254	\$ (108)	\$ 2,267
Total segmented assets	\$ 8,879	\$ 24,794	\$ 15,429	\$ 8,047	\$ 3,624	\$ 60,773

	Three Months Ended March 31, 2016					
	(in thousands)					
	Franchise	Cellular Retail	Direct to Consumer	Consumer Finance	Corporate	Total
Revenue from external customers	\$ 3,612	\$ 9,775	\$ 12,064	\$ 2,984	\$ -	\$ 28,435
Net income (loss)	\$ 523	\$ 371	\$ 904	\$ 312	\$ (135)	\$ 1,975
Total segmented assets	\$ 9,481	\$ 14,746	\$ 16,779	\$ 13,747	\$ 698	\$ 55,451

12. Commitments and Contingencies –

Pursuant to the Company's numerous employment agreements, bonuses of approximately \$331,000 were accrued for the three month period ended March 31, 2017.

13. Subsequent Events –

We evaluated all events or transactions that occurred after March 31, 2017 up through the date we issued these financial statements. During this period we did not have any 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" 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 will not necessarily update 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:

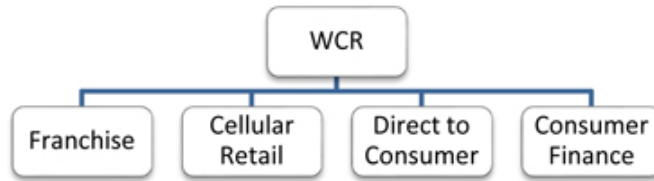
- the seasonal nature of the products sold in our Direct to Consumer segment - a significant portion of pre-tax net income contributed by the segment is earned during the months of March through May and December, consequently the third quarter of each year typically results in a net loss;
- the success of new stores related to our expansion plans in the Cellular Retail segment;
- changes in local, state or federal 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;
- unpredictability or uncertainty in financing markets which could impair our ability to grow our business through acquisitions;
- changes in Cricket dealer compensation;
- failure of or disruption caused by a significant vendor;
- outside factors that affect our ability to obtain product and fulfill orders; and
- our ability to successfully operate or integrate recent or future business 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, 2016.

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 are 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.

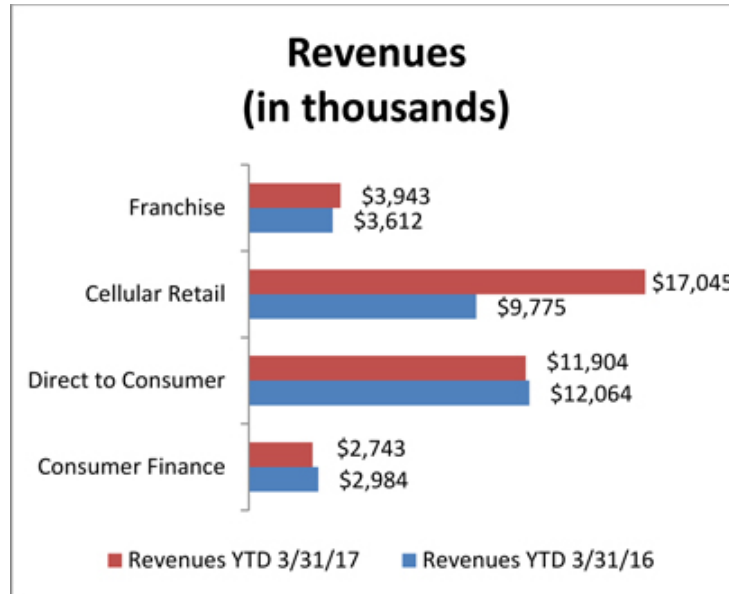
OVERVIEW

Western Capital Resources, Inc. ("WCR" or "Western Capital") is a holding company with a controlling interest in subsidiaries operating in the following industries and operating segments:



Our “Franchise” segment is comprised of AlphaGraphics, Inc. (99.2% owned), the franchisor of AlphaGraphics® customized print and marketing solutions. 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. Our “Direct to Consumer” segment consists of (1) 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 as well as a wholesaler under the Park Wholesale brand, and (2) a wholly owned online and direct marketing distribution retailer of home improvement and restoration products operating as Van Dyke’s Restorers. 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.”

Following is key financial data for the three month period ended March 31, 2017 and 2016:



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 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 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.

Loan Loss Allowance

Included in loans receivable are unpaid principal, interest and fee balances of payday, installment, pawn and title 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 through maturity date, less payments made and a loans receivable allowance.

The Company does not specifically reserve for any individual payday, installment or title loan. The Company aggregates 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. The Company utilizes a software program to assist with the tracking of its 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. The Company also periodically performs a look-back analysis on its loan loss allowance to verify the historical allowance established tracks with the actual subsequent loan write-offs and recoveries. The Company is aware that as conditions change, it may also need to make additional allowances in future periods. Loan losses or charge-offs of pawn or title loans are not recorded because the value of the collateral exceeds the loan amount. See Note 4 to our condensed consolidated financial statements included in this report for a rollforward of our loans receivable allowance.

Valuation of Long-lived and Intangible Assets

We assess the possibility of impairment of long-lived and intangible assets 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. In addition, we conduct an annual goodwill impairment test as of October 1 each year. We assess our goodwill for impairment at the reporting unit level by applying 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.

Results of Operations – Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016

Net income attributable to our common shareholders was \$2.26 million, or \$0.24 per share (basic and diluted), for the quarter ended March 31, 2017, compared to \$1.97 million, or \$0.21 per share (basic and diluted), for the quarter ended March 31, 2016.

We expect segment operating results and earnings per share to change throughout 2017 due, at least in part, to the seasonality of the Direct to Consumer and Cellular Retail segments, growth in the Cellular Retail segment, and potential mergers and acquisitions activity.

Following is a discussion of operating results by segment.

The following table provides quarter-over-quarter revenues and net income attributable to WCR common shareholders by operating segment (in thousands):

	Franchise	Cellular Retail	Direct to Consumer	Consumer Finance	Corporate	Total
Three Months Ended March 31, 2017						
Revenues	\$ 3,943	\$ 17,045	\$ 11,904	\$ 2,743	\$ -	\$ 35,635
% of total revenue	11.1%	47.8%	33.4%	7.7%	-%	100.0%
Net income (loss)	\$ 635	\$ 620	\$ 866	\$ 254	\$ (108)	\$ 2,267
Net income (loss) attributable to WCR common shareholders	\$ 630	\$ 620	\$ 866	\$ 254	\$ (108)	\$ 2,262
Three Months Ended March 31, 2016						
Revenues	\$ 3,612	\$ 9,775	\$ 12,064	\$ 2,984	\$ -	\$ 28,435
% of total revenue	12.7%	34.4%	42.4%	10.5%	-%	100.0%
Net income (loss)	\$ 523	\$ 371	\$ 904	\$ 312	\$ (135)	\$ 1,975
Net income (loss) attributable to WCR common shareholders	\$ 519	\$ 371	\$ 904	\$ 312	\$ (135)	\$ 1,971

Franchise

The table below summarizes the number of AlphaGraphics business centers owned and operated by franchisees during the quarter ended March 31, 2017 and 2016:

	<u>Beginning</u>	<u>New</u>	<u>Closed</u>	<u>Ending</u>
2017				
US Centers	256	-	(3)	253
International Centers	25	-	-	25
Total	<u>281</u>	<u>-</u>	<u>(3)</u>	<u>278</u>
2016				
US Centers	254	4	(1)	257
International Centers	25	-	-	25
Total	<u>279</u>	<u>4</u>	<u>(1)</u>	<u>282</u>

Our U.S. franchisees reported approximate center sales for the quarter ended March 31, 2017 and 2016 as follows:

	<u>2017</u>	<u>2016</u>
Total gross U.S. network-wide center sales	\$ 69,084,000	\$ 67,786,000

Our revenues in the Franchise segment for the quarter ended March 31, 2017 and 2016 were \$3.94 million versus \$3.61 million, an increase of 9.1%. Segment net income period over period increased 23% to \$0.64 million from \$0.52 million in the prior year period.

Cellular Retail

A summary table of the number of Cricket cellular retail stores we operated during the quarter ended March 31, 2017 and 2016 follows:

	<u>2017</u>	<u>2016</u>
Beginning	198	99
Acquired/ Launched	46	14
Closed	-	(2)
Ending	<u>244</u>	<u>111</u>

The Cellular Retail segment revenues and contribution to net income each increased period over period. Both increases are primarily attributable to the 53 additional mature stores we operated under a store operating agreement beginning in November 2016. In addition to operating these additional mature locations, we also operated another 80 locations, most of which had been launched within the fourth quarter of 2016 and first quarter of 2017.

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 \$0.87 million compared to net income of \$0.90 million for the comparable prior year period. Revenues for the three month period ended March 31, 2017 were \$11.90 million compared to the comparable period in 2016 of \$12.06 million.

Consumer Finance

A summary table of the number of consumer finance locations we operated during the quarters ended March 31, 2017 and 2016 follows:

	2017	2016
Beginning	41	47
Acquired/ Launched	-	-
Closed	-	-
Ending	<u>41</u>	<u>47</u>

Our Consumer Finance segment revenues decreased for the quarter ended March 31, 2017 compared to the quarter ended March 31, 2016. We closed two underperforming store locations and another 4 locations due to state legislative changes between the comparable periods. Revenue decreased 8.1% period over period while net income decreased 18.6%.

Corporate

Costs related to our Corporate segment were \$0.11 million for the quarter ended March 31, 2017 compared to \$0.14 million for the quarter ended March 31, 2016.

Liquidity and Capital Resources

Summary cash flow data is as follows:

	Three Months Ended March 31,	
	2017	2016
Cash flows provided (used) by:		
Operating activities	\$ 445,468	\$ 173,150
Investing activities	(1,257,515)	(899,047)
Financing activities	(2,139,530)	(815,702)
Net decrease in cash	(2,951,577)	(1,541,599)
Cash, beginning of period	14,159,975	7,847,669
Cash, end of period	<u>\$ 11,208,398</u>	<u>\$ 6,306,070</u>

At March 31, 2017, we had cash of \$11.21 million compared to cash of \$6.31 million on March 31, 2017. Both comparable periods include cash flows utilized for growth in our Cellular Retail segment. We believe that our available cash, combined with expected cash flows from operations and available financing under credit facilities of approximately \$5.77 million, will be sufficient to fund our scheduled debt repayments and the Cellular Retail segment anticipated capital expenditures through March 31, 2018.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of March 31, 2017.

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 March 31, 2017, 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 March 31, 2017.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 6. Exhibits

Exhibit	Description
31.1	<u>Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).</u>
31.2	<u>Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).</u>
32	<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 <i>(filed herewith)</i> .
101.SCH	XBRL Schema Document <i>(filed herewith)</i> .
101.CAL	XBRL Calculation Linkbase Document <i>(filed herewith)</i> .
101.DEF	XBRL Definition Linkbase Document <i>(filed herewith)</i> .
101.LAB	XBRL Label Linkbase Document <i>(filed herewith)</i> .
101.PRE	XBRL Presentation Linkbase Document <i>(filed herewith)</i> .

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: May 15, 2017

Western Capital Resources, Inc.
(Registrant)

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

By: /s/ Stephen Irlbeck
Stephen Irlbeck
Chief Financial Officer