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, 2018

☐ **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	47-0848102
(State or Other Jurisdiction of Incorporation or Organization)	(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 and posted on its corporate web site, 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 August 14, 2018, the registrant had outstanding 9,390,997 shares of common stock, $0.0001 par value per share.

Western Capital Resources, Inc.

Index

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

WESTERN CAPITAL RESOURCES, INC. AND SUBSIDIARIES

CONTENTS

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

	June 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 10,363,945	$ 21,295,819
Short-term investments	19,661,285	32,292,902
Loans receivable (net of allowance for losses of $661,000 and $833,000, respectively)	3,883,829	4,310,003
Accounts receivable (net of allowance for losses of $23,000 and $16,000, respectively)	666,164	764,071
Inventory (net of allowance of $547,000 and $576,000, respectively)	8,166,607	9,130,842
Prepaid income taxes	426,524	—
Prepaid expenses and other	2,981,296	3,762,974
Escrow and other receivables	3,312,924	3,482,770
TOTAL CURRENT ASSETS	49,462,574	75,039,381
INVESTMENTS	5,758,418	3,000,000
PROPERTY AND EQUIPMENT, net	10,661,078	11,347,234
GOODWILL	5,796,528	5,796,528
INTANGIBLE ASSETS, net	4,605,356	4,987,769
ESCROW FUNDS RECEIVABLE	3,250,000	3,250,000
OTHER	627,356	823,244
TOTAL ASSETS	$ 80,161,310	$ 104,244,156
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 8,583,296	$ 11,897,968
Other current liabilities	1,093,011	1,354,558
Income taxes payable	—	18,730,647
Note payable – short-term	—	51,992
Current portion capital lease obligations	48,560	47,174
Deferred revenue	662,092	1,073,600
TOTAL CURRENT LIABILITIES	10,386,959	33,155,939
LONG-TERM LIABILITIES		
Notes payable, net of current portion	789,216	789,216
Capital lease obligations, net of current portion	26,523	51,172
Deferred income taxes	1,330,000	1,456,000
Other	98,259	98,259
TOTAL LONG-TERM LIABILITIES	2,243,998	2,394,647
TOTAL LIABILITIES	12,630,957	35,550,586
COMMITMENTS AND CONTINGENCIES (Note 14)		
EQUITY		
WESTERN SHAREHOLDERS' EQUITY		
Common stock, $0.0001 par value, 12,500,000 shares authorized, 9,390,997 shares issued and outstanding.	939	939
Additional paid-in capital	29,031,741	29,031,741
Retained earnings	36,706,538	37,903,204
TOTAL WESTERN SHAREHOLDERS' EQUITY	65,739,218	66,935,884
NONCONTROLLING INTERESTS	1,791,135	1,757,686
TOTAL EQUITY	67,530,353	68,693,570
TOTAL LIABILITIES AND EQUITY	$ 80,161,310	$ 104,244,156

See notes to condensed consolidated financial statements.

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

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
REVENUES				
Sales and associated fees	$ 23,681,740	$ 24,739,956	$ 47,498,934	$ 49,299,086
Financing fees and interest	2,072,114	2,119,747	4,246,660	4,353,156
Other revenue	4,026,503	4,897,196	8,493,522	9,796,354
Total Revenues	29,780,357	31,756,899	60,239,116	63,448,596
COST OF REVENUES				
Cost of sales	12,395,630	12,766,964	24,561,663	24,834,901
Provisions for loans receivable losses	241,183	250,734	441,385	488,315
Total Cost of Revenues	12,636,813	13,017,698	25,003,048	25,323,216
GROSS PROFIT	17,143,544	18,739,201	35,236,068	38,125,380
OPERATING EXPENSES				
Salaries, wages and benefits	8,415,533	9,238,501	17,733,326	18,131,153
Occupancy	3,084,870	3,133,620	6,507,088	6,044,912
Advertising, marketing and development	2,438,708	2,212,029	4,468,023	4,118,583
Depreciation	463,103	349,492	1,022,092	675,687
Amortization	214,313	53,255	429,121	107,657
Other	2,580,645	2,667,016	5,275,885	5,408,737
Total Operating Expenses	17,197,172	17,653,913	35,435,535	34,486,729
OPERATING INCOME (LOSS) FROM CONTINUING OPERATIONS	(53,628)	1,085,288	(199,467)	3,638,651
OTHER INCOME (EXPENSES):				
Dividend and interest income	144,175	67,564	311,686	131,639
Interest expense	(50,138)	(51,707)	(137,736)	(109,078)
	94,037	15,857	173,950	22,561
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	40,409	1,101,145	(25,517)	3,661,212
PROVISION FOR INCOME TAX EXPENSE (BENEFIT) FOR CONTINUING OPERATIONS	(61,000)	352,000	(141,000)	1,303,000
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	101,409	749,145	115,483	2,358,212
LESS NET INCOME FROM CONTINUING OPERATIONS ATTRIBUTABLE TO NONCONTROLLING INTEREST	(187,958)	—	(373,049)	—
NET INCOME (LOSS) FROM CONTINUING OPERATIONS ATTRIBUTABLE TO WESTERN COMMON SHAREHOLDERS	(86,549)	749,145	(257,566)	2,358,212
DISCONTINUED OPERATIONS				
Income from operations of discontinued operations	—	1,607,390	—	2,677,649
Less provision for income taxes for discontinued operations	—	(605,000)	—	(1,017,000)
Net income from discontinued operations	—	1,002,390	—	1,660,649
Less net income from discontinued operations attributable to noncontrolling interests	—	(7,436)	—	(12,521)
Net income from discontinued operations attributable to noncontrolling interests	—	994,954	—	1,648,128
NET INCOME (LOSS) ATTRIBUTABLE TO WESTERN COMMON SHAREHOLDERS	$ (86,549)	$ 1,744,099	$ (257,566)	$ 4,006,340
EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO WESTERN COMMON SHAREHOLDERS				
FROM CONTINUING OPERATIONS - Basic and diluted	$ (0.01)	$ 0.08	$ (0.03)	$ 0.25
FROM DISCONTINUED OPERATIONS - Basic and diluted	$ —	$ 0.11	$ —	$ 0.17
FROM CONTINUING AND DISCONTINUED OPERATIONS - Basic and diluted	$ (0.01)	$ 0.19	$ (0.03)	$ 0.42
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic and diluted	9,390,997	9,390,997	9,390,997	9,431,739

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, 2018	June 30, 2017
OPERATING ACTIVITIES		
Net income from continuing operations	$ 115,483	$ 2,358,212
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,022,092	675,687
Amortization	429,121	107,657
Share based compensation	—	16,660
Deferred income taxes	(126,000)	(34,000)
Loss on disposal of property and equipment	421,472	24,530
Income from investments	(12,705)	—
Changes in operating assets and liabilities:		
Loans receivable	426,174	498,844
Accounts receivable	97,907	223,036
Inventory	883,187	(557,071)
Prepaid expenses and other assets	416,823	(296,548)
Accounts payable and accrued expenses	(22,045,319)	(3,649,890)
Deferred revenue and other current liabilities	(673,055)	(346,391)
Operating cash flows from discontinued operations	—	1,561,034
Net cash and cash equivalents provided by (used in) operating activities	(19,044,820)	581,760
INVESTING ACTIVITIES		
Purchases of investments	(26,564,181)	—
Proceeds from held-to-maturity investments	36,461,012	—
Purchase of property and equipment	(549,186)	(1,406,595)
Acquisition of stores, net of cash acquired	(76,707)	—
Advances on note receivable, net	—	(513,744)
Proceeds from installment sale receivable	185,963	—
Proceeds from the disposal of property, plant and equipment	10,000	14,459
Cash received from discontinued operations	—	4,237,135
Investing activities of discontinued operations	—	(13,326)
Net cash and cash equivalents provided by investing activities	9,466,901	2,317,929
FINANCING ACTIVITIES		
Payments on notes payable – short-term, net	(51,992)	(34,755)
Payments on line of credit, net	—	(998,426)
Payments on notes payable – long-term	—	(950,264)
Common stock redemption	—	(480,928)
Payments on capital leases	(23,263)	(23,970)
Payment of dividends to noncontrolling interests	(339,600)	—
Payment of dividends	(939,100)	(234,775)
Financing activities of discontinued operations	—	(4,276,140)
Net cash and cash equivalents used in financing activities	(1,353,955)	(6,999,258)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(10,931,874)	(4,099,569)
CASH AND CASH EQUIVALENTS		
Beginning of period	21,295,819	14,159,975
End of period	$ 10,363,945	$ 10,060,406
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Income taxes paid	$ 19,145,172	$ 3,401,436
Interest paid	$ 75,052	$ 239,290

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 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 and six month periods ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

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, 2017. The condensed consolidated balance sheet at December 31, 2017, 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.

- Cellular Retail
  - PQH Wireless, Inc. (PQH) (100%) – operates 225 cellular retail stores as of June 30, 2018 (168 100% owned plus 57 through a 70% owned subsidiary), 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 "payday" stores (41 as of June 30, 2018) 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 June 30, 2018) in Nebraska and Iowa providing collateralized non-recourse pawn loans and retail sales of merchandise obtained from forfeited pawn loans or purchased from customers.
- Discontinued Operations 2017 - Franchise
  - AlphaGraphics, Inc. (AGI) – franchisor of domestic and international AlphaGraphics BusinessCenters. AGI was sold on October 2, 2017.

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," "EPI" or "AGI" 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 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, with the exception of the presentation of dividends received from discontinued subsidiary operations in the Condensed Consolidated Statement of Cash Flows.

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 loans and accounts 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 Operations and Statements of Cash Flows 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 and six months ended June 30, 2018.

In accordance with ASC 205-20-45-6, interest on debt required to be paid as a result of our Franchise segment disposal transaction has been allocated to discontinued operations and, in accordance with ASC 205-20-45-9, general corporate overhead has not been allocated to discontinued operations. These re-allocations and related income tax have been made in the presentation of our prior financial statements and accompanying notes.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued a comprehensive new revenue recognition standard that supersedes nearly all existing revenue recognition guidance under US GAAP. This standard is effective for annual and interim periods beginning after December 15, 2017. The Company has adopted this standard as of January 1, 2018 applying it on a retrospective basis as of the date adopted and determined it had no impact 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. The 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 and expects its adoption to have a material impact on our financial condition due to a material addition of operating lease assets and liabilities in accordance with the ASU.

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) issued new rules for payday lending. The proposed rules, 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. 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 federal, state or local 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 affects 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 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. Cash Equivalents and 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, 2018	December 31, 2017
Cash and cash equivalents		
Operating accounts	$ 9,333,301	$ 10,524,923
Certificates of deposit	—	750,000
Money Market Mutual Funds - U.S. Treasury obligations	1,030,644	10,020,896
Subtotal	10,363,945	21,295,819
Held to Maturity Investments		
Certificates of deposit	14,810,493	13,250,000
T-Bills and Notes	10,609,210	22,042,902
Subtotal	25,419,703	35,292,902
TOTAL	$ 35,783,648	$ 56,588,721

As of June 30, 2018, held to maturity securities consisted of the following:

	Cost	Accrued Interest	Amortized Discount	Amortized Cost	Unrealized Gain (Loss)	Estimated Fair Value
Certificates of Deposit	$ 14,750,000	$ 60,493	$ —	$ 14,810,493	$ (110,671)	$ 14,699,822
Treasury Bills and Notes	$ 10,581,103	$ 8,418	$ 19,689	$ 10,609,210	$ (37,456)	$ 10,571,754

4. Loans Receivable –

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

	June 30, 2018			
	Payday	Installment	Pawn & Title	Total
Current	$ 3,178,299	$ 252,555	$ 294,855	$ 3,725,709
1-30	219,087	41,560	—	260,647
31-60	146,493	17,940	—	164,433
61-90	99,662	13,787	—	113,449
91-120	76,787	10,928	—	87,715
121-150	69,148	7,974	—	77,122
151-180	111,815	3,939	—	115,754
	3,901,291	348,683	294,855	4,544,829
Less Allowance	(585,000)	(76,000)	—	(661,000)
	$ 3,316,291	$ 272,683	$ 294,855	$ 3,883,829

December 31, 2017				
	Payday	Installment	Pawn & Title	Total
Current	$ 3,550,077	$ 271,926	$ 318,361	$ 4,140,364
1-30	216,376	47,356	—	263,732
31-60	187,916	27,766	—	215,682
61-90	150,278	17,976	—	168,254
91-120	110,943	11,870	—	122,813
121-150	131,171	4,748	—	135,919
151-180	93,222	3,017	—	96,239
	4,439,983	384,659	318,361	5,143,003
Less Allowance	(745,000)	(88,000)	—	(833,000)
	$ 3,694,983	$ 296,659	$ 318,361	$ 4,310,003

5. Loans Receivable Allowance –

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

	Six Months Ended June 30, 2018	Year Ended December 31, 2017
Loans receivable allowance, beginning of period	$ 833,000	$ 1,036,000
Provision for loan losses charged to expense	441,385	1,122,144
Charge-offs, net	(613,385)	(1,325,144)
Loans receivable allowance, end of period	$ 661,000	$ 833,000

6. Accounts Receivable –

A breakdown of accounts receivables by segment is as follows:

June 30, 2018				
	Cellular Retail	Direct to Consumer	Consumer Finance	Total
Accounts receivable	$ 332,625	$ 346,666	$ 9,873	$ 689,164
Less allowance	—	(23,000)	—	(23,000)
Net account receivable	$ 332,625	$ 323,666	$ 9,873	$ 666,164

December 31, 2017				
	Cellular Retail	Direct to Consumer	Consumer Finance	Total
Accounts receivable	$ 399,459	$ 365,476	$ 15,136	$ 780,071
Less allowance	—	(16,000)	—	(16,000)
Net account receivable	$ 399,459	$ 349,476	$ 15,136	$ 764,071

7. Inventory –

Finished goods inventory, net of allowance, by segment consists of the following:

	June 30, 2018	December 31, 2017
Cellular Retail	$ 5,374,222	$ 5,287,932
Direct to Consumer	1,938,740	2,988,052
Consumer Finance	853,645	854,858
	$ 8,166,607	$ 9,130,842

8. Notes Payable – Long Term –

	June 30, 2018	December 31, 2017
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
Total	789,216	789,216
Less current maturities	—	—
	$ 789,216	$ 789,216

The Company is party to a Credit Agreement with a financial institution entered into on April 22, 2016 and last amended on April 26, 2018. The Credit Agreement provides the Company with a revolving line of credit facility in an aggregate amount up to $3,000,000, having a maturity date of April 21, 2020 and an acquisition loan facility in an aggregate amount of up to $9,000,000, having 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, 2018, the entire $12,000,000 of credit was available under the credit facilities. See Note 14 for additional terms, conditions and amendments related to the Credit Agreement.

9. Income Taxes –

The provision for income taxes for continuing operations is (552.6)% and 35.6% of income before the provision for income taxes for the six month period ended June 30, 2018 and 2017, respectively. The significant difference in rate is the result of the 2018 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.

10. Cash Dividends –

Our Board of Directors declared the following dividends payable in 2018:

Date Declared	Record Date	Dividend Per Share	Payment Date
January 18, 2018	February 9, 2018	$0.05	February 14, 2018
May 2, 2018	May 17, 2018	$0.05	May 24, 2018

11. Other Operating Expense –

A breakout of other expense is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Bank fees	$ 533,813	$ 573,040	$ 1,036,377	$ 1,105,215
Collection costs	81,587	91,528	166,192	181,422
Insurance	198,334	256,531	403,629	497,271
Management and advisory fees	196,799	190,662	390,509	344,143
Professional and consulting fees	361,915	486,737	905,011	1,148,826
Supplies	170,054	414,381	387,490	738,517
Other	1,038,143	654,137	1,986,677	1,393,343
	$ 2,580,645	$ 2,667,016	$ 5,275,885	$ 5,408,737

12. Discontinued Operations –

As more fully disclosed in Note 19 of the Notes to Consolidated Financial Statements for the year ended December 31, 2017, on October 3, 2017 the Company closed on the sale of its franchise segment.

In accordance with the provisions of ASC 205-20, the Company has not included the results of operations of the Franchise segment in the results from continuing operations. The results of operations for this business have been reflected as discontinued operations in the unaudited Condensed Consolidated Statements of Operations for the three and six month periods ended June 30, 2017, and consist of the following:

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
REVENUES OF DISCONTINUED OPERATIONS	$ 4,033,512	$ 7,976,821
COST OF REVENUES OF DISCONTINUED OPERATIONS	729,476	1,377,673
GROSS PROFIT OF DISCONTINUED OPERATIONS	3,304,036	6,599,148
OPERATING EXPENSES OF DISCONTINUED OPERATIONS:		
Salaries, wages and benefits	1,013,668	2,112,407
Occupancy	38,697	81,461
Advertising, marketing and development	82,222	184,818
Depreciation	24,733	48,826
Amortization	86,119	172,236
Other	392,499	1,182,262
	1,637,938	3,782,010
OPERATING INCOME OF DISCONTINUED OPERATIONS	1,666,098	2,817,138
OTHER INCOME (EXPENSE) OF DISCONTINUED OPERATIONS		
Interest expense	(58,708)	(139,489)
	(58,708)	(139,489)
INCOME BEFORE INCOME TAXES OF DISCONTINUED OPERATIONS	1,607,390	2,677,649
PROVISION FOR INCOME TAXES OF DISCONTINUED OPERATIONS	605,000	1,017,000
NET INCOME OF DISCONTINUED OPERATIONS	1,002,390	1,660,649
LESS NET INCOME OF DISCONTINUED OPERATIONS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(7,436)	(12,521)
NET INCOME OF DISCONTINUED OPERATIONS ATTRIBUTABLE TO WESTERN COMMON SHAREHOLDERS	$ 994,954	$ 1,648,128

In accordance with the provisions of ASC 205-20, the Company has separately reported the cash flow activity of the discontinued operations of the Franchise segment in the Consolidated Statements of Cash Flows. The cash flow activities from discontinued operations have been reflected as discontinued operations in the Consolidated Statements of Cash Flows for the six month period ended June 30, 2017, and consisted of the following:

	Six Months Ended June 30, 2017
DISCONTINUED OPERATING ACTIVITIES	
Net income of discontinued operations	$ 1,660,649
Adjustments to reconcile net income of discontinued operations to net cash provided by operating activities of discontinued operations:	
Depreciation	48,826
Amortization	172,236
Share based compensation	2,243
Deferred income taxes	(68,000)
Changes in operating assets and liabilities:	
Accounts receivable	(306,855)
Prepaid expenses and other assets	(34,266)
Accounts payable and accrued expenses	(393,117)
Deferred revenue and other current liabilities	444,556
Other liabilities – long-term	34,762
Net cash provided by operating activities of discontinued operations	$ 1,561,034
INVESTING ACTIVITIES OF DISCONTINUED OPERATIONS	
Purchase of property, plant and equipment	(13,326)
Net cash used in investing activities of discontinued operations	$ (13,326)
FINANCING ACTIVITIES OF DISCONTINUED OPERATIONS	
Principal payments on capital lease obligations	(7,620)
Dividends to shareholders	(4,268,520)
Net cash used in financing activities of discontinued operations	$ (4,276,140)

13. Segment Information –

Segment information related to the three and six month periods ended June 30, 2018 and 2017 for continuing operations is presented below:

Three Months Ended June 30, 2018
(in thousands)

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

Three Months Ended June 30, 2017
(in thousands)

	Cellular Retail	Direct to Consumer	Consumer Finance	Corporate	Total
Revenue from external customers	$ 17,087	$ 12,127	$ 2,543	$ —	$ 31,757
Net income (loss)	$ (296)	$ 1,103	$ 201	$ (259)	$ 749
Expenditures for segmented assets	$ 531	$ 121	$ —	$ —	$ 652

Six Months Ended June 30, 2018
(in thousands)

	Cellular Retail	Direct to Consumer	Consumer Finance	Corporate	Total
Revenue from external customers	$ 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

Six Months Ended June 30, 2017
(in thousands)

	Cellular Retail	Direct to Consumer	Consumer Finance	Corporate	Discontinued Operations	Total
Revenue from external customers	$ 34,132	$ 24,031	$ 5,286	$ —	$ —	$ 63,449
Net income (loss)	$ 374	$ 1,968	$ 455	$ (439)	$ —	$ 2,358
Total segment assets	$ 25,666	$ 12,520	$ 8,589	$ 2,522	$ 8,729	$ 58,026
Expenditures for segmented assets	$ 1,204	$ 203	$ —	$ —	$ —	$ 1,407

14. Commitments and Contingencies –

Employment Agreements

Pursuant to the Company's numerous employment agreements, bonuses for continuing operation of approximately $111,000 and $213,000 were accrued for the three and six month periods ended June 30, 2018, respectively.

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 requires WCR to meet certain financial tests. On April 26, 2018 the Company entered into a Fourth Loan Modification Agreement related to the Credit Agreement with a financial institution, pursuant to which, among other things, the maturity date of the Credit Agreement was extended to April 21, 2020 and the financial covenants were modified by (1) removing the consolidated leverage ratio and consolidated fixed charge coverage ratio covenants and (2) adding 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 six month 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 $2,755,000 as of June 30, 2018.

15. Subsequent Events –

Dividend Declared

Our Board of Directors declared the following dividend:

Date declared	July 27, 2018
Record date	August 19, 2018
Date paid	August 26, 2018
Dividend per share of common stock	$0.05

We evaluated all events or transactions that occurred after June 30, 2018 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:

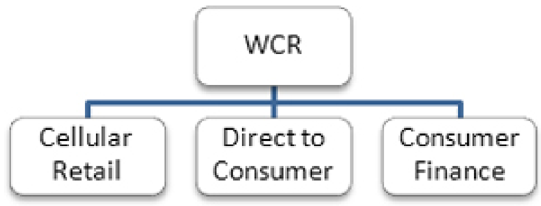
- the seasonal nature of the products sold in our Direct to Consumer segment - a significant portion of pre-tax net income contributed by the segment is earned during the months of March through May and December, consequently the third quarter of each year typically results in a net loss;
- the success of new stores related to our expansion plans in the Cellular Retail segment;
- our efforts to close or dispose of underperforming stores in the Cellular Retail segment and terminate or sublet their leases;
- 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;
- 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, 2017.

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 or Western Capital), 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. 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 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 5 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 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.

Results of Operations – Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

Net income (loss) for continuing operations attributable to our common shareholders was ($0.09) million, or ($0.01) per share (basic and diluted), for the three months ended June 30, 2018, compared to $0.75 million, or $0.08 per share (basic and diluted), for the three months ended June 30, 2017.

We expect segment operating results and earnings per share to change throughout 2018 due, at least in part, to the seasonality of the Direct to Consumer and Cellular Retail segments, retraction in the Cellular Retail segment, 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 three months ended June 30, 2018 and June 30, 2017 (in thousands):

	Cellular Retail	Direct to Consumer	Consumer Finance	Corporate	Total
Three Months Ended June 30, 2018					
Revenue	$ 15,604	$ 11,709	$ 2,467	$ —	$ 29,780
% of total revenue	52.4%	39.3%	8.3%	0.0%	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)
Three Months Ended June 30, 2017					
Revenue	$ 17,087	$ 12,127	$ 2,543	$ —	$ 31,757
% of total revenue	53.8%	38.2%	8.0%	0.0%	100.0%
Net income (loss)	$ (296)	$ 1,103	$ 201	$ (259)	$ 749
Net income attributable to noncontrolling interests	$ —	$ —	$ —	$ —	$ —
Net income (loss) attributable to WCR common shareholders	$ (296)	$ 1,103	$ 201	$ (259)	$ 749

Cellular Retail

A summary table of the number of Cricket cellular retail stores we operated during the three months ended June 30, 2018 and 2017 follows:

	2018	2017
Beginning	236	244
Acquired/ Launched	—	32
Closed/Transferred	(11)	(8)
Ending	225	268

The Cellular Retail segment achieved substantial growth in location count in 2016 and 2017 as a result of our expansion initiative. While some newly launched locations are performing well, others have been slow to ramp up. Due to the underperformance of some expansion stores as well as some mature stores, we have accelerated store closures and disposals, reducing the number of retail stores operated from 236 at the beginning of the quarter to 225 at quarter end. Because the growth initiative included leased properties with three to five year terms, there are additional costs incurred to terminate leases or sublet leased properties of closed locations. The nonrecurring costs of store closings, which include costs for lease termination agreements executed within the quarter, contributed approximately $445,000 to the net loss for the 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 three months ended June 30, 2018, the Direct to Consumer segment had net income of $0.53 million compared to net income of $1.10 million for the comparable period in 2017, while revenues for the three month period ended June 30, 2018 were $11.7 million compared to $12.1 million for the comparable period in 2017. All product lines, with the exception of retail seed, experienced sales declines period over period, with home improvement and restoration product sales declining the greatest at 14.6%. We have faced many headwinds within this segment, including replacing bankrupt vendors, increasing shipping costs while shipping revenue from customers continues to decline and 2018 weather related delays in product sales that did not fully recover in the current quarter.

Consumer Finance

A summary table of the number of consumer finance locations we operated during the three month periods ended June 30, 2018 and 2017 follows:

	2018	2017
Beginning	41	41
Acquired/ Launched	—	—
Closed	—	—
Ending	41	41

Our Consumer Finance segment revenues decreased $0.08 million, or 3.0%, for the three month period ended June 30, 2018 compared to the three month period ended June 30, 2017. Our net income for the three month period ended June 30, 2018 increased 9.5% over the three month period ended June 30, 2017 largely due to reduction of ongoing operating expenses and income tax expense.

Corporate

Net expenses related to our Corporate segment were $0.16 million for the three month period ended June 30, 2018 compared to $0.26 million for the three month period ended June 30, 2017. The period over period decrease is primarily due to the increase in investment income.

Results of Operations – Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Net income (loss) for continuing operations attributable to our common shareholders was $(0.26) million, or ($0.03) per share (basic and diluted), for the six months ended June 30, 2018, compared to $2.36 million, or $0.25 per share (basic and diluted), for the six months ended June 30, 2017.

We expect segment operating results and earnings per share to change throughout 2018 due, at least in part, to the seasonality of the Direct to Consumer and Cellular Retail segments, retraction in the Cellular Retail segment, 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 period ended June 30, 2018 and June 30, 2017 (in thousands):

	Cellular Retail	Direct to Consumer	Consumer Finance	Corporate	Total
Six Months Ended June 30, 2018					
Revenue	$ 32,711	$ 22,390	$ 5,138	$ —	$ 60,239
% of total revenue	54.3%	37.2%	8.5%	0.0%	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)
Six Months Ended June 30, 2017					
Revenue	$ 34,132	$ 24,031	$ 5,286	$ —	$ 63,449
% of total revenue	53.8%	37.9%	8.3%	0.0%	100.0%
Net income (loss)	$ 374	$ 1,968	$ 455	$ (439)	$ 2,358
Net income attributable to noncontrolling interests	$ —	$ —	$ —	$ —	$ —
Net income (loss) attributable to WCR common shareholders	$ 374	$ 1,968	$ 455	$ (439)	$ 2,358

Cellular Retail

A summary table of the number of Cricket cellular retail stores we operated during the six months ended June 30, 2018 and 2017 follows:

	2018	2017
Beginning	278	198
Acquired/ Launched	1	78
Closed/Transferred	(54)	(8)
Ending	225	268

As previously noted, the Cellular Retail segment achieved substantial growth in location count in 2016 and 2017. Also as noted in the quarterly discussion, due to the underperformance of some of the expansion locations as well as some mature stores, we have accelerated store closures and disposals. Year to date, we have reduced the number of retail stores operated from 278 at the beginning of the year to 225 at the end of June 2018. We anticipate closing approximately 20 additional locations through the end of the calendar year. These closures have temporarily increased costs, but once the process is completed over the next six to twelve months, we expect to realize the benefits of the closings.

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, 2018, the Direct to Consumer segment had net income of $0.85 million compared to net income of $1.97 million for the comparable period in 2017. Revenues for the six month period ended June 30, 2018 were $22.4 million compared to $24.0 million for the comparable period in 2017. In 2018, we experienced delays in sales due to weather conditions and shipping zones not opening up as early as 2017 and sales volume never fully recovered from the delays. By the end of March 2018 we had substantially completed the relocation of the Van Dyke’s Restorers brand distribution from the outsourced 3PL to in-house, which added approximately $225,000 of nonrecurring expense in 2018.

Consumer Finance

A summary table of the number of consumer finance locations we operated during the six month periods ended June 30, 2018 and 2017 follows:

	2018	2017
Beginning	41	41
Acquired/ Launched	—	—
Closed	—	—
Ending	41	41

Our Consumer Finance segment revenues decreased $0.15 million, or 2.8%, for the six month period ended June 30, 2018 compared to the six month period ended June 30, 2017. However, our net income for the six month period ended June 30, 2018 increased 21.2% over the six month period ended June 30, 2017 largely due to reduction of net bad debts, ongoing operating expenses and income tax expense.

Corporate

Costs related to our Corporate segment were $0.43 million for the six month period ended June 30, 2018 compared to $0.44 million for the six month period ended June 30, 2017. Period over period, there was an increase in operating expenses of $0.09 million and a $0.10 million reduction in the provision for income tax benefit that was offset by $0.20 million of net interest and dividends income. Because we have no outstanding balances on the parent level credit facility and no operating segment is receiving direct benefit from it, current period unused line fees and amortization of loan costs have been treated as a corporate overhead expense.

Consolidated Income Tax Expense

Provision for income tax benefit for continuing operations for the six month period ended June 30, 2018 was ($0.14) million compared to income tax expense of $1.30 million for the six month period ended June 30, 2017 for an effective rate of 552.6% and 35.6%, respectively. The significant difference in rate is the result of the 2018 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:

	Six Months Ended June 30,	
	2018	2017
Cash flows provided (used) by:		
Operating activities	$ (19,044,820)	$ 581,760
Investing activities	9,466,901	2,317,929
Financing activities	(1,353,955)	(6,999,258)
Net decrease in cash	(10,931,874)	(4,099,569)
Cash, beginning of period	21,295,819	14,159,975
Cash, end of period	$ 10,363,945	$ 10,060,406

Included in the cash flows used by operating activities for the six month period ended June 30, 2018 are income tax payments of $19.15 million. The liability associated with these payments relate primarily to our 2017 sale of our Franchise segment.

At June 30, 2018, we had cash and cash equivalents of $10.36 million and highly liquid investments of $25.42 million compared to cash and cash equivalents of $10.06 million on June 30, 2017. We believe that our available cash and cash equivalents, 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 2019. 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 and the payment of dividends.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of June 30, 2018.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

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, 2018, 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, 2018.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2018 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
10.1	Consent and Fourth Amendment Agreement, dated April 26, 2018, by and among the Company, certain subsidiaries named therein and Fifth Third Bank (incorporated by reference to Exhibit 10.1 to the registrant's current report on Form 8-K filed on May 3, 2018).
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (*filed herewith*).
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (*filed herewith*).
32	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (*filed herewith*).
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, 2018

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