

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, 2022

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

Commission File Number: 000-52015

**Western Capital Resources, Inc.**

(Exact Name of Registrant as Specified in its Charter)

Delaware  
(State or Other Jurisdiction of Incorporation or Organization)

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

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

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

N/A

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

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

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

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

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

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

Large accelerated filer  Accelerated filer  Emerging growth company   
Non-accelerated filer  Smaller reporting company

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

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

Yes  No

As of May 13, 2022, the registrant had outstanding 9,108,053 shares of common stock, \$0.0001 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**

	<u>March 31, 2022</u>	<u>December 31, 2021</u>
	(Unaudited)	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 30,918,475	\$ 43,015,095
Short-term investments	26,715,678	14,376,274
Loans receivable (net of allowance for credit losses of \$399,000 and \$384,000, respectively)	1,849,308	1,980,322
Accounts receivable (net of allowance for credit losses of \$57,500 and \$34,500, respectively)	3,424,239	1,333,277
Inventories (less reserve of \$1,478,000 and \$1,424,000, respectively)	16,531,014	13,915,857
Prepaid income taxes	-	189,632
Prepaid expenses and other	3,434,457	2,515,999
<b>TOTAL CURRENT ASSETS</b>	<u>82,873,171</u>	<u>77,326,456</u>
Property and equipment, net	7,956,700	8,306,041
Operating lease right-of-use assets	16,374,663	16,489,185
Intangible assets, net	7,942,218	7,156,401
Deferred income taxes	345,000	357,000
Other loans receivable	195,914	273,342
Other	509,070	492,719
Goodwill	5,796,528	5,796,528
<b>TOTAL ASSETS</b>	<u>\$ 121,993,264</u>	<u>\$ 116,197,672</u>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 13,020,259	\$ 10,896,353
Accrued payroll	2,351,631	4,041,242
Current portion operating lease liabilities	5,590,344	5,724,564
Other current liabilities	1,934,750	1,769,192
Income taxes payable	1,136,492	-
Current portion long-term debt	2,150,196	1,423,098
Contract and other liabilities	727,288	1,118,057
<b>TOTAL CURRENT LIABILITIES</b>	<u>26,910,960</u>	<u>24,972,506</u>
<b>LONG-TERM LIABILITIES</b>		
Notes payable, net of current portion	1,835,263	2,000,000
Operating lease liabilities, net of current portion	11,063,608	11,067,515
<b>TOTAL LONG-TERM LIABILITIES</b>	<u>12,898,871</u>	<u>13,067,515</u>
<b>TOTAL LIABILITIES</b>	<u>39,809,831</u>	<u>38,040,021</u>
COMMITMENTS AND CONTINGENCIES (Note 12)	-	-
<b>EQUITY</b>		
<b>WESTERN SHAREHOLDERS' EQUITY</b>		
Common stock, \$0.0001 par value, 12,500,000 shares authorized, 9,108,053 shares issued and outstanding as of March 31, 2022 and December 31, 2021	911	911
Additional paid-in capital	29,562,271	29,562,271
Retained earnings	50,816,333	46,862,154
<b>TOTAL WESTERN SHAREHOLDERS' EQUITY</b>	<u>80,379,515</u>	<u>76,425,336</u>
Noncontrolling interests	1,803,918	1,732,315
<b>TOTAL EQUITY</b>	<u>82,183,433</u>	<u>78,157,651</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>\$ 121,993,264</u>	<u>\$ 116,197,672</u>

*See notes to condensed consolidated financial statements*

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

	<b>Three Months Ended</b>	
	<b>March 31, 2022</b>	<b>March 31, 2021</b>
<b>REVENUES</b>		
Sales and associated fees	\$ 39,312,977	\$ 37,653,669
Financing fees and interest	1,138,629	1,002,470
Other revenues	6,001,791	5,529,945
Total Revenues	<u>46,453,397</u>	<u>44,186,084</u>
<b>COST OF REVENUES</b>		
Cost of sales	21,260,264	21,405,354
Provisions for loans receivable credit losses	36,632	(86,436)
Total Cost of Revenues	<u>21,296,896</u>	<u>21,318,918</u>
<b>GROSS PROFIT</b>	<u>25,156,501</u>	<u>22,867,166</u>
<b>OPERATING EXPENSES</b>		
Salaries, wages and benefits	9,894,165	8,936,986
Occupancy	2,847,461	2,511,712
Advertising, marketing and development	2,642,666	2,442,191
Depreciation	394,021	397,948
Amortization	386,809	159,825
Other	2,700,456	2,452,469
Total Operating Expenses	<u>18,865,578</u>	<u>16,901,131</u>
<b>OPERATING INCOME</b>	<u>6,290,923</u>	<u>5,966,035</u>
<b>OTHER INCOME (EXPENSES):</b>		
Dividend and interest income	18,359	30,654
Interest expense	(24,798)	(18,056)
Total Other Income (Expenses)	<u>(6,439)</u>	<u>12,598</u>
<b>INCOME BEFORE INCOME TAXES</b>	<u>6,284,484</u>	<u>5,978,633</u>
<b>PROVISION FOR INCOME TAX EXPENSE</b>	<u>1,344,000</u>	<u>1,299,350</u>
<b>NET INCOME</b>	<u>4,940,484</u>	<u>4,679,283</u>
<b>LESS NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS</b>	<u>(758,603)</u>	<u>(769,571)</u>
<b>NET INCOME ATTRIBUTABLE TO WESTERN COMMON SHAREHOLDERS</b>	<u>\$ 4,181,881</u>	<u>\$ 3,909,712</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO WESTERN COMMON SHAREHOLDERS</b>		
Basic	\$ 0.46	\$ 0.42
Diluted	\$ 0.46	\$ 0.42
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (Note 18)</b>		
Basic	9,108,053	9,249,900
Diluted	9,120,136	9,258,131

*See notes to condensed consolidated financial statements*

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

<b>Western Capital Resources, Inc. Shareholders'</b>						
<b>Common Stock</b>						
	<b>Shares</b>	<b>Amount</b>	<b>Additional Paid-In Capital</b>	<b>Retained Earnings</b>	<b>Noncontrolling Interests</b>	<b>Total</b>
BALANCE – December 31, 2021	9,108,053	\$ 911	\$ 29,562,271	\$ 46,862,154	\$ 1,732,315	\$ 78,157,651
Net income	-	-	-	4,181,881	758,603	4,940,484
Distributions to noncontrolling interests	-	-	-	-	(687,000)	(687,000)
Dividends paid	-	-	-	(227,702)	-	(227,702)
BALANCE – March 31, 2022	<u>9,108,053</u>	<u>\$ 911</u>	<u>\$ 29,562,271</u>	<u>\$ 50,816,333</u>	<u>\$ 1,803,918</u>	<u>\$ 82,183,433</u>

<b>Western Capital Resources, Inc. Shareholders'</b>						
<b>Common Stock</b>						
	<b>Shares</b>	<b>Amount</b>	<b>Additional Paid-In Capital</b>	<b>Retained Earnings</b>	<b>Noncontrolling Interests</b>	<b>Total</b>
BALANCE – December 31, 2020	9,249,900	\$ 925	\$ 29,562,271	\$ 38,470,323	\$ 1,555,125	\$ 69,588,644
Net income	-	-	-	3,909,712	769,571	4,679,283
Distributions to noncontrolling interests	-	-	-	-	(372,000)	(372,000)
Dividends paid	-	-	-	(231,248)	-	(231,248)
BALANCE – March 31, 2021	<u>9,249,900</u>	<u>\$ 925</u>	<u>\$ 29,562,271</u>	<u>\$ 42,148,787</u>	<u>\$ 1,952,696</u>	<u>\$ 73,664,679</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, 2022	March 31, 2021
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 4,940,484	\$ 4,679,283
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	404,528	411,602
Amortization	386,809	159,825
Amortization of operating lease right-of-use assets	1,600,460	1,245,804
Deferred income taxes	12,000	(151,000)
(Gain) loss on disposal of assets	(8,021)	13,056
Changes in operating assets and liabilities:		
Loans receivable	131,014	554,720
Accounts receivable	(2,090,962)	(1,150,469)
Inventory	(2,611,908)	(2,998,401)
Prepaid expenses and other assets	(654,465)	445,768
Operating lease liabilities	(1,798,575)	(1,533,977)
Accounts payable and accrued expenses	1,745,297	3,432,023
Contract and other liabilities	(274,627)	215,770
Net cash and cash equivalents provided by operating activities	<u>1,782,034</u>	<u>5,324,004</u>
<b>INVESTING ACTIVITIES</b>		
Purchases of investments	(21,428,552)	(3,592,303)
Proceeds from investments	9,089,148	5,500,000
Purchases of property and equipment	(55,188)	(253,690)
Acquisition of operating assets	(975,874)	-
Net cash and cash equivalents provided by (used in) investing activities	<u>(13,370,466)</u>	<u>1,654,007</u>
<b>FINANCING ACTIVITIES</b>		
Advances on notes payable – long-term	727,098	1,258,475
Payments on notes payable – long-term	(250,000)	(846,602)
Distributions to noncontrolling interests	(607,000)	(372,000)
Payment of accrued common stock redemptions	(150,584)	-
Payments of dividends	(227,702)	(231,248)
Net cash and cash equivalents used in financing activities	<u>(508,188)</u>	<u>(191,375)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(12,096,620)</b>	<b>6,786,636</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of period	43,015,095	32,504,803
End of period	<u>\$ 30,918,475</u>	<u>\$ 39,291,439</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Income taxes paid	\$ 5,876	\$ 6,778
Interest paid	\$ 14,298	\$ 150,668
Noncash investing and financing activities:		
Right-of-use assets obtained and operating lease obligations incurred	\$ 1,487,495	\$ 2,156,174
Distribution to noncontrolling interests applied to loans receivable	\$ 80,000	\$ -
Noncurrent liability converted to long-term debt – related party	\$ -	\$ 2,500,000
408,000 shares issued in transaction with entities under common control	\$ -	\$ 2,754,000
Financed equipment purchase – construction in progress	\$ 85,263	\$ -

*See notes to condensed consolidated financial statements.*

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

## 1. 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 229 cellular retail stores as of March 31, 2022 (130 100% owned plus 99 held through its controlled but less than 100% owned subsidiaries), exclusively as an authorized retailer 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.

Manufacturing

Swisher Acquisition, Inc. (“SAI”) (100%) - a manufacturer of lawn and garden power equipment and emergency safety shelters under the Swisher brand name, and a provider of turn-key manufacturing services to third parties.

Consumer Finance

Wyoming Financial Lenders, Inc. (“WFL”) (100%) – owns and operates “payday” stores (19 as of March 31, 2022) in four states (Iowa, Kansas, North Dakota 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, 2022) 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,” “we” or “us” refer to Western Capital Resources, Inc. and its subsidiaries. References to specific companies within our enterprise, such as “PQH,” “JPPA,” “JPRE,” “SAI,” “WFL,” or “EPI” are references only to those companies.

## 2. Summary of Significant Accounting Policies –

***Basis of Presentation***

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

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 2022 are not necessarily indicative of the results that may be expected for the year ending December 31, 2022.

Management has analyzed the impact of the Coronavirus pandemic (“COVID-19”) on its financial statements as of March 31, 2022 and has determined that the changes to its significant judgements and estimates did not have a material impact with respect to goodwill, intangible assets or long-lived assets.

For further information, refer to the Consolidated Financial Statements and notes thereto included in our Form 10-K for the year ended December 31, 2021.

***Basis of Consolidation***

The consolidated financial statements include the accounts of WCR, its wholly-owned subsidiaries and other entities in which the Company owns a controlling financial interest. For financial interests in which the Company owns a controlling financial interest, the Company applies the provisions of ASC 810, "Consolidation" applicable to reporting the equity and net income or loss attributable to noncontrolling interests. 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, estimated expected lifetime credits losses, economic conditions or future economic trends and various other assumptions believed to be reasonable under the circumstances. Actual results could differ from those estimates. Significant management estimates relate to the loans receivable allowance for credit losses, carrying value and impairment of goodwill, other long-lived assets, right-of-use assets and related liabilities (including the applicable discount rate), inventory valuation and obsolescence, estimated useful lives of intangible assets and property and equipment, gift certificate and merchandise credits liability and deferred taxes and tax uncertainties.

***Cash and Cash Equivalents***

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

***Fair Value Measurements***

The fair value of a financial instrument is the amount that could be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. A fair value hierarchy is used to prioritize the quality and reliability of the information used to determine fair values. Categorization within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The three-level hierarchy is as follows:

Level 1 – Quoted market prices in active markets for identical assets or liabilities.

Level 2 – Observable market-based inputs or inputs that are corroborated by market data.

Level 3 - Unobservable inputs that are not corroborated by market date.

The Company's held to maturity securities are comprised of U.S Treasury zero coupon T-Bills.

***Earnings Per Common Share***

The Company computes basic earnings per common share ("EPS") in accordance with ASC 260, "Earnings Per Share," which is computed by dividing the income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS gives effect to all potentially dilutive common shares outstanding during the period, as calculated using the treasury stock method. In computing diluted EPS, the weighted average market price for the period is used in determining the number of common shares assumed to be purchased from the exercise of stock options.

***Recent Accounting Pronouncements***

No 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.

## 3. Risks Inherent in the Operating Environment –

***Regulatory***

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

However, in January 2018, the CFPB issued a statement that it intended to "reconsider" the regulation. In July 2020, the CFPB issued a final rule applicable to the 2017 rule. The final rule rescinded the mandatory underwriting provisions of the 2017 rule but did not rescind or alter the payments provisions of the 2017 rule. The CFPB will seek to have these rules go into effect with a reasonable period for entities to come into compliance. The implementation of the final rule is likely to result in a reduction of in-house bad debt collections, higher collection costs and thus a negative impact and further contraction of our Consumer Finance segment.

**Notes to Condensed Consolidated Financial Statements (continued)**

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

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

4. Cash and Cash Equivalents and Investments –

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

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
<b>Cash and cash equivalents</b>		
Operating accounts	\$ 20,777,394	\$ 20,549,383
Money Market – U.S. Treasury obligations	1,547,425	1,013,134
U.S. Treasury obligations	8,593,656	21,452,578
<i>Subtotal</i>	<u>30,918,475</u>	<u>43,015,095</u>
<b>Investments</b>		
Certificates of deposit (9 - 18 month maturities at time of purchase, FDIC insured)	1,535,292	2,035,301
U.S. Treasury obligations (less than one year maturities)	25,180,386	12,340,973
<i>Subtotal</i>	<u>26,715,678</u>	<u>14,376,274</u>
<b>TOTAL</b>	<u>\$ 57,634,153</u>	<u>\$ 57,391,369</u>

Investments consisted of the following:

	<b>March 31, 2022</b>					
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Amortized Cost</u>	<u>Unrealized Loss</u>	<u>Estimated Fair Value</u>
Certificates of deposit	\$ -	\$ 1,535,292	\$ -	\$ 1,535,292	\$ -	\$ 1,535,292
U.S. Treasury obligations	25,168,378	-	-	25,180,386	(22,435)	25,157,951
	<u>\$ 25,168,378</u>	<u>\$ 1,535,292</u>	<u>\$ -</u>	<u>\$ 26,715,678</u>	<u>\$ (22,435)</u>	<u>\$ 26,693,243</u>
	<b>December 31, 2021</b>					
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Amortized Cost</u>	<u>Unrealized Gain (Loss)</u>	<u>Estimated Fair Value</u>
Certificates of deposit	\$ -	\$ 2,035,301	\$ -	\$ 2,035,301	\$ (402)	\$ 2,034,899
U.S. Treasury obligations	12,340,973	-	-	12,340,973	(1,566)	12,339,407
	<u>\$ 12,340,973</u>	<u>\$ 2,035,301</u>	<u>\$ -</u>	<u>\$ 14,376,274</u>	<u>\$ (1,968)</u>	<u>\$ 14,374,306</u>

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

	<b>Three Months Ended March 31, 2022</b>	<b>Three Months Ended March 31, 2021</b>
Held-to-maturity	\$ 11,869	\$ 92
Other	6,490	30,562
	<u>\$18,359</u>	<u>\$30,654</u>

The Company has demand deposits at financial institutions, often times in excess of the limit for insurance by the Federal Deposit Insurance Corporation. As of March 31, 2022, the Company had demand deposits in excess of insurance amounts of approximately \$14.6 million.

The Company has deposited in aggregate \$2.79 million of cash across several different accounts at financial institutions as an accommodation to its majority stockholder, which has other business relationships with the financial institution. The funds in these accounts can be withdrawn at any time, do not serve as collateral in any way, and are held on market terms.

## 5. Loans Receivable –

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

<b>March 31, 2022</b>			
	<b>Payday</b>	<b>Pawn</b>	<b>Total</b>
Current	\$ 1,518,580	\$ 267,364	\$ 1,785,944
1-30	122,804	-	122,804
31-60	76,524	-	76,524
61-90	70,071	-	70,071
91-120	62,551	-	62,551
121-150	63,244	-	63,244
151-180	67,170	-	67,170
	<u>1,980,944</u>	<u>267,364</u>	<u>2,248,308</u>
Less allowance for credit losses	(399,000)	-	(399,000)
	<u>\$ 1,581,944</u>	<u>\$ 267,364</u>	<u>\$ 1,849,308</u>
<b>December 31, 2021</b>			
	<b>Payday</b>	<b>Pawn</b>	<b>Total</b>
Current	\$ 1,652,791	\$ 271,009	\$ 1,923,800
1-30	112,716	-	112,716
31-60	78,762	-	78,762
61-90	76,198	-	76,198
91-120	61,310	-	61,310
121-150	63,321	-	63,321
151-180	48,215	-	48,215
	<u>2,093,313</u>	<u>271,009</u>	<u>2,364,322</u>
Less allowance for credit losses	(384,000)	-	(384,000)
	<u>\$ 1,709,313</u>	<u>\$ 271,009</u>	<u>\$ 1,980,322</u>

## 6. Accounts Receivable –

A breakdown of accounts receivables by segment was as follows:

<b>March 31, 2022</b>					
	<b>Cellular Retail</b>	<b>Direct to Consumer</b>	<b>Manufacturing</b>	<b>Consumer Finance</b>	<b>Total</b>
Accounts receivable	\$ 282,221	\$ 2,125,381	\$ 1,036,542	\$ 37,595	\$ 3,481,739
Less allowance for credit losses	-	(40,000)	(17,500)	-	(57,500)
Net accounts receivable	<u>\$ 282,221</u>	<u>\$ 2,085,381</u>	<u>\$ 1,019,042</u>	<u>\$ 37,595</u>	<u>\$ 3,424,239</u>
<b>December 31, 2021</b>					
	<b>Cellular Retail</b>	<b>Direct to Consumer</b>	<b>Manufacturing</b>	<b>Consumer Finance</b>	<b>Total</b>
Accounts receivable	\$ 270,686	\$ 225,213	\$ 839,626	\$ 32,252	\$ 1,367,777
Less allowance for credit losses	-	(17,000)	(17,500)	-	(34,500)
Net accounts receivable	<u>\$ 270,686</u>	<u>\$ 208,213</u>	<u>\$ 822,126</u>	<u>\$ 32,252</u>	<u>\$ 1,333,277</u>

A portion of accounts receivable are unsettled credit card sales from the prior one to five business days. This makes up 28% and 25% of the net accounts receivable balance as of March 31, 2022 and December 31, 2021, respectively

## 7. Inventory –

Inventories consisted of:

<b>March 31, 2022</b>						
	<b>Cellular Retail</b>	<b>Direct to Consumer</b>	<b>Manufacturing</b>	<b>Consumer Finance</b>	<b>Reserve</b>	<b>Total</b>
Raw materials	\$ -	\$ -	\$ 2,112,559	\$ -	\$ (266,000)	\$ 1,846,559
Work in process	-	-	421,970	-	(29,000)	392,970
Finished goods	6,491,970	5,899,338	2,232,595	850,582	(1,183,000)	14,291,485
Total	<u>\$ 6,491,970</u>	<u>\$ 5,899,338</u>	<u>\$ 4,767,124</u>	<u>\$ 850,582</u>	<u>\$ (1,478,000)</u>	<u>\$ 16,531,014</u>

## December 31, 2021

	Cellular Retail	Direct to Consumer	Manufacturing	Consumer Finance	Reserve	Total
Raw materials	\$ -	\$ -	\$ 1,940,096	\$ -	\$ (256,000)	\$ 1,684,096
Work in process	-	-	461,831	-	(33,000)	428,831
Finished goods	4,834,929	5,253,771	2,008,970	840,260	(1,135,000)	11,802,930
Total	<u>\$ 4,834,929</u>	<u>\$ 5,253,771</u>	<u>\$ 4,410,897</u>	<u>\$ 840,260</u>	<u>\$ (1,424,000)</u>	<u>\$ 13,915,857</u>

As a result of changes in the market for certain Company products and the resulting deteriorating value, carrying amounts for those inventories were reduced by approximately \$1,478,000 and \$1,424,000 during the three months ended March 31, 2022 and year ended December 31, 2021, respectively. These inventory write-downs have been reflected in cost of goods sold in the statement of operations. Management believes that these reductions properly reflect inventory values, and no additional losses will be incurred upon disposition.

## 8. Advertising, Marketing and Development –

The Company had no prepaid direct-response advertising costs as of March 31, 2022 and December 31, 2021. Included in Advertising, Marketing and Development for the three month periods ended March 31, 2022 and 2021 were advertising expenses of \$2.04 million and \$1.96 million, respectively.

## 9. Leases –

Total components of operating lease expense (in thousands) were as follows for the three months ended:

	March 31, 2022	March 31, 2021
Operating lease expense	\$ 1,803	\$ 1,534
Variable lease expense	526	531
Total lease expense	<u>\$ 2,329</u>	<u>\$ 2,065</u>

Other information related to operating leases was as follows:

	March 31, 2022	December 31, 2021
Weighted average remaining lease term, in years	5.87	5.81
Weighted average discount rate	4.2%	4.4%

Future minimum lease payments under operating leases as of March 31, 2022 (in thousands) are as follows:

Remainder of 2022	\$ 4,791
2023	4,776
2024	2,871
2025	1,511
2026	929
Thereafter	3,949
Total future minimum lease payments	<u>18,827</u>
Less: imputed interest	<u>(2,173)</u>
Total	<u>\$ 16,654</u>
Current portion operating lease liabilities	\$ 5,590
Non-current operating lease liabilities	11,064
Total	<u>\$ 16,654</u>

## 10. Intangible Assets –

A rollforward of the Company's intangible assets is as follows:

	December 31, 2021	Acquisitions	Additions	Deletions	March 31, 2022
Customer relationships	\$ 12,136,254	\$ 1,172,626	\$ -	\$ -	\$ 13,308,880
Other	242,660	-	-	-	242,660
Amortizable intangible assets	12,378,914	1,172,626	-	-	13,551,540
Less accumulated amortization	(5,222,513)	-	(386,809)	-	(5,609,322)
Net amortizable intangible assets	<u>\$ 7,156,401</u>	<u>\$ 1,172,626</u>	<u>\$ (386,809)</u>	<u>\$ -</u>	<u>\$ 7,942,218</u>

Notes to Condensed Consolidated Financial Statements (continued)

	December 31, 2020	Acquisitions	Additions	Deletions	December 31, 2021
Customer relationships	\$ 7,727,054	\$ 4,411,700	\$ -	\$ (2,500)	\$ 12,136,254
Other	242,660	-	-	-	242,660
Amortizable intangible assets	7,969,714	4,411,700	-	(2,500)	12,378,914
Less accumulated amortization	(4,383,795)	-	(838,718)	-	(5,222,513)
Net amortizable intangible assets	<u>\$ 3,585,919</u>	<u>\$ 4,411,700</u>	<u>\$ (838,718)</u>	<u>\$ (2,500)</u>	<u>\$ 7,156,401</u>

As of March 31, 2022, estimated future amortization expense for the amortizable intangible assets (in thousands) was as follows:

Remainder of 2022	\$ 1,129
2023	1,430
2024	1,339
2025	1,242
2026	889
Thereafter	1,913
	<u>\$ 7,942</u>

11. Notes Payable –

A breakdown of notes payable was as follows:

	March 31, 2022	December 31, 2021
Bank revolving loan	\$ 1,900,196	\$ 1,173,098
Note payable – bank	85,263	-
Note payable – related party	2,000,000	2,250,000
Total	3,985,459	3,423,098
Less current maturities	(2,150,196)	(1,423,098)
	<u>\$ 1,835,263</u>	<u>\$ 2,000,000</u>

Future minimum long-term principal payments are as follows:

Year 1	\$ 2,150,196
Year 2	335,263
Year 3	250,000
Year 4	250,000
Year 5	250,000
Thereafter	750,000
Total	<u>\$ 3,985,459</u>

On October 22, 2010 SAI obtained a senior credit facility (“Revolving Loan”) with a bank. The Revolving Loan, as previously amended, had a credit limit of up to \$4,500,000 based on percentages of eligible inventory, an interest rate of LIBOR plus 4.5% (4.875% at March 31, 2022), and a maturity date of October 21, 2021, and contained certain restrictive financial covenants. SAI entered into an Amended and Restated Credit Agreement (the “Credit Agreement”) with its senior lender on April 8, 2021. The Credit Agreement modified the revolving line of credit limit to \$2.5 million based on an inventory and receivables availability, and subjects SAI to various covenants, including a minimum Fixed Charge Coverage ratio and maximum Senior Funded Debt to EBITDA ratio. SAI did not fulfill the Senior Funded Debt to EBITDA ratio as required in the Credit Agreement. The bank had not requested early repayment of the loan and, as discussed more fully in Note 20, “Subsequent Events,” extended the maturity date of the Credit Agreement. The Commercial Promissory Note associated with the Credit Agreement had a maturity date of April 30, 2022. The Revolving Loan, as amended, continues to be secured by substantially all assets of SAI.

On January 7, 2022 SAI executed an equipment financing loan agreement with a bank. As of March 31, 2022, \$85,263 of \$430,000 committed was advanced on the note. Upon completion of the equipment purchase and bank financing, payment of \$9,680.20 will be due monthly for a term of 48 months. The agreement has a stated interest rate of 3.85% per annum.

SAI was party to a Management and Advisory Agreement dated August 6, 2010, as amended April 1, 2012, with Blackstreet Capital Management, LLC (“Blackstreet”) under which Blackstreet provides certain financial, managerial, strategic and operating advice and assistance. The agreement required SAI to pay Blackstreet a fee in an amount equal to the greater of (i) \$250,000 (subject to annual increases of five percent) or (ii) five percent of SAI’s “EBITDA” as defined under the agreement. As of December 31, 2020, SAI owed Blackstreet \$2,513,546 of accrued fees under the agreement. On January 8, 2021, pursuant to the Merger Transaction, the agreement was terminated, \$13,546 of the accrued fees were paid to Blackstreet, and the remaining \$2,500,000 was converted into a note payable to Blackstreet. The note is payable in ten consecutive annual lump sum installments of \$250,000, without interest thereon, commencing on January 31, 2021, is unsecured and is guaranteed by the Company. The accrued liability converted to a note is presented herein retrospectively to furnish comparative information.

## 12. Commitments and Contingencies –

**Legal Proceedings**

The Company is party to a variety of legal actions arising out of the normal course of business. Plaintiffs occasionally seek punitive or exemplary damages. The Company does not believe that such normal and routine litigation will have a material impact on its consolidated financial results.

## 13. Revenue –

**Cellular Retail**

Compensation from Cricket Wireless – As a Cricket Wireless authorized retailer, we earn compensation from Cricket Wireless for activating a new customer on the Cricket Wireless network and activating new devices for existing Cricket Wireless customers (“back-end compensation”) and upon an existing Cricket Wireless customer whom we originally activated on the Cricket Wireless GSM network making a continuing service payment (“CSP”). Compensation from Cricket Wireless for the three month periods ended March 31, 2022 and 2021 was \$9.74 million and \$8.71, respectively.

Cellular Retail revenues are recognized per ASC 606, “Revenue Recognition” and consist of the following:

- Merchandise – merchandise sales, which exclude sales taxes, reflect the transaction price at point of sale when payment is received or receivable, the customer takes control of the merchandise and, applicable to devices, the device has been activated on the Cricket Wireless network. The sale and activation of a wireless device also correlates to the recording of back-end compensation from Cricket Wireless. Sales returns are not material to our financial statements. Merchandise sales revenue, which included back-end compensation from Cricket Wireless, is recorded in Sales and associated fees in the income statement.
- Other revenue – services revenue from customer paid fees is recorded at point of sale when payment is received and the customer receives the benefit of the service. CSP compensation from Cricket Wireless is recorded as of the time certain Cricket Wireless customers make a service payment, as reported to us by Cricket Wireless.

**Direct to Consumer**

Direct to Consumer revenue is recognized per ASC 606 and consists of the following:

- Merchandise – merchandise sales, which exclude sales taxes, reflect the transaction price when product is shipped to customers, FOB shipping point, reduced by variable consideration. Shipping and handling fees are included in total net sales. Variable consideration is comprised of estimated future returns and merchandise credits which are estimated based primarily on historical rates and sales levels.

**Manufacturing**

Manufacturing revenue is recognized per ASC 606 and consists of the following:

- Merchandise – merchandise sales, which exclude sales taxes, reflect the transaction price when product is shipped to customers, FOB shipping point, or at point of sale and are reduced by variable consideration. Shipping and handling fees are not included in total net sales and are an offset to freight-out expense. Variable consideration is comprised of estimated future returns and warranty liability which are estimated based primarily on historical rates and sales levels.

**Consumer Finance**

Consumer Finance revenue from merchandise sales is recognized per ASC 606 and consists of the following:

- Merchandise – merchandise sales, which exclude sales taxes, reflects the transaction price at point of sale in our pawn stores when payment in full is received and the customer takes control of the merchandise. Sales returns are not material to our financial statements.
- Other revenue – services revenue from customer paid fees for ancillary services is recorded at point of sale when payment is received and the customer receives the benefit of the service.

Consumer finance revenue from loan fees and interest is recognized per ASC 825 and consist of the following:

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

See Note 17, “Segment Information,” for disaggregation of revenue by segment.

14. Other Operating Expense –

A breakout of other operating expense is as follows:

	<b>Three Months Ended</b>	
	<b>March 31, 2022</b>	<b>March 31, 2021</b>
Bank fees	\$ 707,317	\$ 724,645
Collection costs	56,307	72,283
Insurance	233,198	164,521
Management and advisory fees	242,068	224,771
Professional and consulting fees	603,922	431,678
Supplies	244,843	166,872
Loss (Gain) on disposal	(8,021)	13,056
Other	620,822	654,643
	<u>\$ 2,700,456</u>	<u>\$ 2,452,469</u>

15. Provision for Income Tax Expense –

Provision for income tax expense for the three months ended March 31, 2022 and 2021 was \$1.34 million and \$1.30 million for an effective rate of 21.4% and 21.7%, respectively. The effective tax rate is lower than the federal plus state statutory rates due to: (1) noncontrolling interests' share of net income is not subject to income tax at the consolidated group level; (2) year-over-year changes in the number and mix of states in which our subsidiaries are subject to state income taxes due to various nexus factors such as changes in multi-state activities by members of the consolidated group and its impact on the application of respective state income tax rules and regulations; and (3) changes in state income tax related statutes and regulations. Excluding the noncontrolling interests' share of net income, the effective tax rate for the comparable periods was 24.3% and 24.9%, respectively. This decrease period over period is due to changing state income tax exposure resulting from a change in the number and mix of states in which subsidiaries are subject to state income taxes due to various factors such as changes in multistate activities by members of the consolidated group and its impact on state taxation rules and regulations applicable to the Company.

16. Acquisition –

*Direct to Consumer Acquisition*

On January 14, 2022, the Company's Direct to Consumer segment completed an acquisition of assets accounted for under ASC 805-10, acquiring the "Seed to Spoon" App. This is a garden planning App that makes growing food easier and provides an easy and direct path to purchasing seeds from our Park Seed business.

The purchase price calculation (in thousands) was as follows:

Cash	\$ 976
Holdback payable	200
	<u>\$ 1,176</u>

The assets acquired (in thousands) were recorded at their estimated fair values as of the purchase date as follows:

Inventory	\$ 3
Intangible assets	1,173
	<u>\$ 1,176</u>

17. Segment Information –

Segment information related to the three month periods ended March 31, 2022 and 2021 (in thousands) was as follows:

	<b>Three Months Ended March 31, 2022</b>					
	<b>(in thousands)</b>					
	<b>Cellular Retail</b>	<b>Direct to Consumer</b>	<b>Manufacturing</b>	<b>Consumer Finance</b>	<b>Corporate</b>	<b>Total</b>
Revenue from external customers	\$ 26,259	\$ 15,979	\$ 2,620	\$ 456	\$ -	\$ 45,314
Fees and interest income	\$ -	\$ -	\$ -	\$ 1,139	\$ -	\$ 1,139
Total revenue	\$ 26,259	\$ 15,979	\$ 2,620	\$ 1,595	\$ -	\$ 46,453
Net income (loss)	\$ 2,389	\$ 2,723	\$ (19)	\$ 182	\$ (334)	\$ 4,941
Total segment assets	\$ 45,360	\$ 19,204	\$ 10,799	\$ 6,529	\$ 40,101	\$ 121,993
Expenditures for segmented assets	\$ -	\$ 1,205	\$ 26	\$ -	\$ -	\$ 1,231

Three Months Ended March 31, 2021						
(in thousands)						
	Cellular Retail	Direct to Consumer	Manufacturing	Consumer Finance	Corporate	Total
Revenue from external customers	\$ 25,511	\$ 14,678	\$ 2,523	\$ 472	\$ -	\$ 43,184
Fees and interest income	\$ -	\$ -	\$ -	\$ 1,002	\$ -	\$ 1,002
Total revenue	\$ 25,511	\$ 14,678	\$ 2,523	\$ 1,474	\$ -	\$ 44,186
Net income (loss)	\$ 2,522	\$ 2,269	\$ (18)	\$ 162	\$ (256)	\$ 4,679
Total segment assets	\$ 40,186	\$ 17,515	\$ 10,629	\$ 6,356	\$ 37,149	\$ 111,835
Expenditures for segmented assets	\$ 191	\$ 63	\$ -	\$ -	\$ -	\$ 254

## 18. Basic and Diluted Weighted Average Shares Outstanding –

Following is the calculation of basic and diluted weighted average shares outstanding for the three month periods ended on March 31, 2022 and 2021:

	Three Months Ended:	
	March 31, 2022	March 31, 2021
Weighted average shares outstanding - basic	9,108,053	9,249,900
Stock options (treasury method)	12,083	8,231
Weighted average shares outstanding - diluted	9,120,136	9,258,131

## 19. Dividends –

Our Board of Directors declared and paid the following dividends during the first quarter of 2022:

Date Declared	Record Date	Dividend Per Share	Payment Date	Dividend Paid
February 15, 2022	March 1, 2022	\$ 0.025	March 11, 2022	\$ 227,702

## 20. Subsequent Events –

*Dividends Declared*

Our Board of Directors declared the following dividends after March 31, 2022:

Date Declared	Record Date	Dividend Per Share	Payment Date
May 4, 2022	May 20, 2022	\$ 0.025	June 2, 2022

*SAI Amended and Restated Credit Agreement*

SAI entered into a Second Amended and Restated Credit Agreement (the “Agreement”) with its senior lender on May 6, 2022. The Agreement provides for a revolving line of credit of up to \$2.5 million based on an inventory and receivables availability, and subjects SAI to various covenants, including a minimum Fixed Charge Coverage Ratio and Minimum Net Worth requirement. The Commercial Promissory Note associated with the Agreement has a maturity date of April 30, 2023.

*Cellular Retail Acquisition*

On May 9, 2022, PQH completed the acquisition of 80% of the membership interests of Gateway Wireless, LLC (“Gateway”), an operator of 56 wireless retail locations in Missouri and several other states. PQH paid \$3.0 million to acquire the membership interests in Gateway and fund the paydown of certain obligations to the selling shareholders at closing. Simultaneously with closing, WCR funded a \$3.1 million loan to Gateway to refinance the existing senior debt of the Company.

We evaluated all events or transactions that occurred after March 31, 2022 through the date we issued these financial statements. During this period, we did not have any other material subsequent events that impacted our financial statements.

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

### Forward-Looking Statements

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

Specific factors that might cause actual results to differ from our expectations or may affect the value of the common stock, include, but are not limited to:

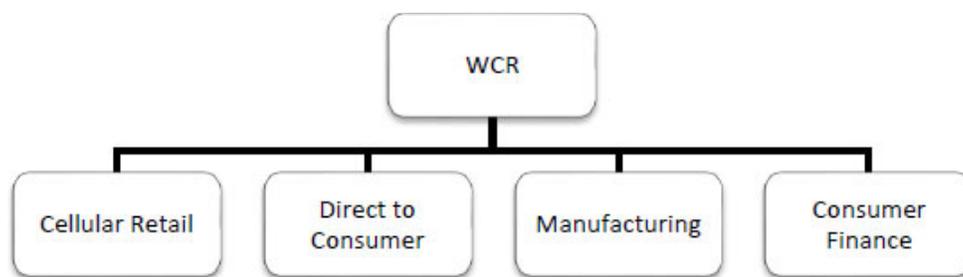
- Supply chain disruptions and delays and related lost revenue or increased costs;
- Inflationary pressures on cost of sales and fluctuations in commodity prices;
- Potential product liability risks that relate to the design, manufacture, sale and use of our Swisher products;
- Changes in local, state or federal laws and regulations governing lending practices, or changes in the interpretation of such laws and regulations;
- Litigation and regulatory actions directed toward the consumer finance industry or us, particularly in certain key states;
- Our need for additional financing;
- Changes in our authorization to be a dealer for Cricket Wireless;
- Changes in authorized Cricket dealer compensation;
- Lack of advertising support and sales promotions from Cricket Wireless in the markets we operate;
- Our dependence on information systems;
- Direct and indirect effects of COVID-19 on our employees, customers, our supply chain, the economy and financial markets; and
- Unpredictability or uncertainty in financing and merger and acquisition markets, which could impair our ability to grow our business through acquisitions.

Other factors that could cause actual results to differ from those implied by the forward-looking statements in this report are more fully described in the “Risk Factors” section of our Form 10-K for the year ended December 31, 2021.

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”), 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 controlled but less than 100% owned subsidiaries. Our Direct to Consumer segment consists of a wholly-owned branded 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 manufacturing segment consists of a wholly-owned manufacturer of lawn and garden power equipment and emergency safety shelters selling products primarily under the Swisher brand name and provides turn-key manufacturing services to third parties. 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.”

#### *Acquisitions:*

On March 11, 2022, our Cellular Retail segment entered into a series of definitive agreements to purchase 80% of Gateway Wireless, LLC, an operator of 56 Cricket Wireless locations in Missouri and several other states. We completed the transaction on May 9, 2022.

On January 14, 2022, the Company’s Direct to Consumer segment acquired From Seed to Spoon, a garden planning App that makes growing food easier. From Seed to Spoon is yet another tool in Park Seed’s tool shed designed to inspire, teach, and reach customers where they get information today – on their phones. From Seed to Spoon calculates planting dates based on GPS location taking the guesswork out of when to plant seeds. In addition to providing personalized planting dates, the App also includes companion planting guides, recipes, organic pest treatments, and beneficial insect guides. It even enables users to filter plants by health benefit. The App also provides an easy and direct path to purchasing seeds from our Park Seed business.

We expect segment operating results and earnings per share to change throughout 2022 and beyond due, at least in part, to the seasonality of the various segments, recently completed and potential merger and acquisition activity, the unknown impact of COVID-19, the effects of inflationary pressures, as well as supply and labor shortages.

#### Discussion of Critical Accounting Policies

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

Our significant accounting policies are discussed in Note 2, “Summary of Significant Accounting Policies,” of the notes to our condensed consolidated financial statements included in this report together with our significant accounting policies discussed in Note 1, “Basis of Presentation, Nature of Business and Summary of Significant Accounting Policies,” of the notes to our December 31, 2021 consolidated financial statements included in our Form 10-K for the year ended December 31, 2021. We believe that the following critical accounting policies affect the more significant estimates and assumptions used in the preparation of our condensed consolidated financial statements.

#### *Receivables and Credit Loss Allowance*

##### Consumer Finance

Included in loans receivable is \$2.25 million of unpaid principal, interest and fee balances of payday loans that have not reached their maturity date. Payday loans by their nature are high risk loans and require significant assumptions when determining a reserve for credit losses, including the default rate and the amount of subsequent collections on those defaulted loans. These two factors have remained relatively stable over the past two years and we therefore use historical rates to assist in determining anticipated future credit losses. In addition, we must consider future economic factors. Any significant downturn in the economy which is greater than our assumptions will increase the default rates and reduce subsequent collections on those defaulted loans. As of March 31, 2022, we have estimated credit losses from the \$2.25 million loans receivable balance to be approximately \$40,000.

#### *Inventory*

##### Direct to Consumer

Inventory is valued at the lower of cost or market using the weighted-average method of determining cost. The Company periodically evaluates the value of items in inventory and provides write-downs to inventory based on its estimate of market conditions. Two subcategories of inventory, live plants and restoration products, are most susceptible to write-downs and the application of key assumptions.

Live plants have a limited life and any unsold product is disposed of at the end of a selling season. Should the demand for product not meet expectations, larger write-downs may occur during interim periods until written off. Management will assess the need for write-downs based on inventory levels, the length of time remaining in the live-goods season, and current and expected demand which could be impacted by many current market and economic factors as discussed in the Risk Factors section of our Form 10-K for the year ended December 31, 2021.

We have a significant number of home hardware products in this segment’s inventory. Due to the uniqueness of many of these items, the sales volume of an individual SKU may be low. Management evaluates the value of items in inventory to estimate an allowance against carrying costs. This evaluation includes a look-back of sales volume of the respective SKU over the prior twelve month period to estimate the allowance.

##### Manufacturing

Inventory is valued at the lower of cost or market using the standard costing method of determining cost. The Company periodically evaluates the value of items in inventory and provides write-downs to inventory based on its estimate of market conditions. Key assumptions used are the future quantity to be sold, the future selling price of an item, and the cost of raw materials, primarily steel. Unknown economic factors or supply factors could materially affect these assumptions. A sharp downturn in the economy would negatively impact the future quantity sold. Dropping steel or other raw materials costs will negatively impact assumptions used for future sales prices and the underlying cost under the lower of cost or market methodology. Future sales prices and the underlying cost under the lower of cost or market methodology could also be negatively impacted by an unforeseen introduction of comparable products, possibly from foreign sources or otherwise, at a lower price point.

## Results of Operations – Three Months Ended March 31, 2022 Compared to Three Months Ended March 31, 2021

Net income attributable to our common shareholders for the current quarter was \$4.18 million, or \$0.46 per share (basic and diluted) for the quarter ended March 31, 2022, compared to \$3.91 million, or \$0.42 per share (basic and diluted), for the quarter ended March 31, 2021.

Following is a discussion of operating results by segment.

The following table provides revenues and net income attributable to WCR common shareholders for the quarters ended March 31, 2022 and March 31, 2021 (in thousands).

	<b>Cellular Retail</b>	<b>Direct to Consumer</b>	<b>Manufacturing</b>	<b>Consumer Finance</b>	<b>Corporate</b>	<b>Total</b>
<b>Three Months Ended March 31, 2022</b>						
Revenue	\$ 26,259	\$ 15,979	\$ 2,620	\$ 1,595	\$ -	\$ 46,453
% of total revenue	56.5%	34.4%	5.7%	3.4%	-%	100%
Net income (loss)	\$ 2,389	\$ 2,723	\$ (19)	\$ 182	\$ (334)	\$ 4,941
Net income attributable to noncontrolling interests	\$ 759	\$ -	\$ -	\$ -	\$ -	\$ 759
Net income (loss) attributable to WCR common shareholders	\$ 1,630	\$ 2,723	\$ (19)	\$ 182	\$ (334)	\$ 4,182
<b>Three Months Ended March 31, 2021</b>						
Revenue	\$ 25,511	\$ 14,678	\$ 2,523	\$ 1,474	\$ -	\$ 44,186
% of total revenue	57.8%	33.2%	5.7%	3.3%	-%	100%
Net income (loss)	\$ 2,522	\$ 2,269	\$ (18)	\$ 162	\$ (256)	\$ 4,679
Net income attributable to noncontrolling interests	\$ 769	\$ -	\$ -	\$ -	\$ -	\$ 769
Net income (loss) attributable to WCR common shareholders	\$ 1,753	\$ 2,269	\$ (18)	\$ 162	\$ (256)	\$ 3,910

### **Cellular Retail**

A summary table of the number of Cricket Wireless retail stores we operated during the three months ended March 31, 2022 and March 31, 2021 follows:

	<b>2022</b>	<b>2021</b>
Beginning	229	205
Acquired/ Launched	-	2
Closed/Divested	-	(2)
Ending	229	205

The increase in the store count above was primarily due to our September 9, 2021 acquisition of 25 Cricket Wireless retail stores.

Period over period, net income attributable to shareholders decreased from \$1.75 million in the comparable prior year quarter to \$1.63 million in the current quarter. Many factors have contributed to this period over period decrease. Most notable is a 2.9% increase in segment revenue period over period on a store count that increased 12%. We attribute the decline in same store revenue year over year primarily to consumers receiving both tax refunds and COVID-19 relief funds at approximately the same time in the prior year quarter, while the COVID-19 relief funds are significantly down in the comparable current year period. In addition inflationary pressures have negatively impacted many expenses, most notably salaries, wages and benefits and occupancy expenses.

### **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 a net income of \$2.72 million compared to net income of \$2.27 million for the comparable prior year period. Revenues for the quarter ended March 31, 2022 were \$15.98 million compared to \$14.68 million for the comparable period in 2021, an 8.9% increase. The gains in revenue in the Direct to Consumer segment were partially offset by higher selling and advertising expenses versus the prior year comparable period.

### **Manufacturing**

Manufacturing segment sales increased from \$2.52 million in the comparable prior period to \$2.62 million in the current period. For each of the quarters ended March 31, 2022 and 2021, the Manufacturing segment had a net loss of \$0.02 million.

### **Consumer Finance**

A summary table of the number of consumer finance locations we operated during the quarters ended March 31, 2022 and March 31, 2021 follows:

	<b>2021</b>	<b>2020</b>
Beginning	22	22
Acquired/Launched	-	-
Closed/Divested	-	-
Ending	22	22

Consumer Finance segment revenues increased \$0.12 million, or 8.2%, for the quarter ended March 31, 2022 compared to the quarter ended March 31, 2021 due to an increase in lending volume. Segment net income also increased from \$0.16 million to \$0.18 million for the same period.

### **Corporate**

Net costs related to our Corporate segment were \$0.33 million for the three month period ended March 31, 2022 compared to \$0.26 million for the three month period ended March 31, 2021.

#### *Consolidated Income Tax Expense*

Provision for income tax expense for the three months ended March 31, 2022 was \$1.34 million compared to \$1.30 million for the three months ended March 31, 2021 for an effective rate of 21.4% and 21.7%, respectively. The effective tax rate is lower than the federal plus state statutory rates due to: (1) noncontrolling interests' share of net income is not subject to income tax at the consolidated group level; (2) year-over-year changes in the number and mix of states in which our subsidiaries are subject to state income taxes due to various nexus factors such as changes in multi-state activities by members of the consolidated group and its impact on the application of respective state income tax rules and regulations; and (3) changes in state income tax related statutes and regulations. Excluding the noncontrolling interests' share of net income, the effective tax rate for the comparable periods was 24.3% and 24.9%, respectively. This decrease period over period is due to changing state income tax exposure resulting from a change in the number and mix of states in which subsidiaries are subject to state income taxes due to various factors such as changes in multistate activities by members of the consolidated group and its impact on state taxation rules and regulations applicable to us.

### **Liquidity and Capital Resources**

Summary cash flow data is as follows:

	<b>Three Months Ended March</b>	
	<b>31,</b>	
	<b>2022</b>	<b>2021</b>
Cash flows provided by (used in):		
Operating activities	\$ 1,782,034	\$ 5,324,004
Investing activities	(13,370,466)	1,654,007
Financing activities	(508,188)	(191,375)
Net decrease in cash and cash equivalents	(12,096,620)	6,786,636
Cash and cash equivalents, beginning of period	43,015,095	32,504,803
Cash and cash equivalents, end of period	<u>\$ 30,918,475</u>	<u>\$ 39,291,439</u>

As of March 31, 2022, we had cash and cash equivalents of \$30.92 million compared to cash and cash equivalents of \$39.29 million on March 31, 2021. In addition, on March 31, 2022, we also had \$26.72 million invested in certificates of deposit (limited to \$250,000 per financial institution per entity) and U.S. Treasuries compared to \$15.41 million as of March 31, 2021, with the year over year increase more than offsetting the decrease in cash and cash equivalents over the same period. We believe that our available cash, combined with expected cash flows from operations and our investments, will be sufficient to fund our liquidity and capital expenditure requirements through March 2023. Our expected short-term uses of available cash include the payment of dividends to our shareholders, distributions to noncontrolling interests, scheduled debt repayments, funding capital expenditures, and investing in existing segments when the right opportunity presents itself.

### **Off-Balance Sheet Arrangements**

We had no off-balance sheet arrangements as of March 31, 2022.

### **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, 2022, 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, 2022.

#### Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the fiscal period covered by this report that materially affected, or were reasonably likely to materially affect, such controls.

**PART II. OTHER INFORMATION**

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

**PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

The following table provides information about purchases of Western Capital Resources, Inc. common stock by us during the three months ended March 31, 2022.

**Share Repurchases**

<b>Period Beginning</b>	<b>Period Ending</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Board Approved Plans or Programs</b>	<b>Approximate Dollar Value of Shares That May Yet Be Purchased Under the Program (1)</b>
January 1, 2022	January 31, 2022	-	\$ -	-	\$ 178,800
February 1, 2022	February 28, 2022	-	\$ -	-	\$ 178,800
March 1, 2022	March 31, 2022	-	\$ -	-	\$ 178,800
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(1) On September 13, 2018, our Board of Directors authorized a share repurchase program under which we may repurchase up to \$1 million of common stock. Repurchases may be made from time to time on the open market or through privately negotiated transactions

In February and September 2020, our Board of Directors amended the repurchase program, increasing the amount of share repurchases authorized from \$1 million to \$2 million and \$2 million to \$4 million, respectively.

**Item 6. Exhibits**

<b>Exhibit</b>	<b>Description</b>
<a href="#"><u>31.1</u></a>	<a href="#"><u>Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).</u></a>
<a href="#"><u>31.2</u></a>	<a href="#"><u>Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).</u></a>
<a href="#"><u>32</u></a>	<a href="#"><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></a>
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 13, 2022

**Western Capital Resources, Inc.**  
(Registrant)

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

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

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

**Certification**

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

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

Dated: May 13, 2022

/s/ John Quandahl  
\_\_\_\_\_  
JOHN QUANDAHL  
*Chief Executive Officer*

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

**Certification**

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

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

Dated: May 13, 2022

/s/ Angel Donchev  
\_\_\_\_\_  
ANGEL DONCHEV  
*Chief Financial Officer*

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

In connection with the Quarterly Report of Western Capital Resources, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John Quandahl, Chief Executive Officer of the Company and I, Angel Donchev, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ John Quandahl

John Quandahl  
Chief Executive Officer  
May 13, 2022

/s/ Angel Donchev

Angel Donchev  
Chief Financial Officer  
May 13, 2022