UNITED STATES
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 September 30, 2021

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______ to _______

Commission file number: 001-37945

FlexShopper, Inc.
(Exact name of registrant as specified in its charter)

Delaware	20-5456087
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
901 Yamato Road, Suite 260, Boca Raton, Florida	33431
(Address of Principal Executive Offices)	(Zip Code)

(855) 353-9289
(Registrant’s Telephone Number, Including Area Code)

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.0001 per share	FPAY	The Nasdaq Stock Market LLC

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 the definitions of “large accelerated filer,” “accelerated filer,” “small reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Non-accelerated filer	☒
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 ☒

As of November 12, 2021, the issuer had a total of 21,399,778 shares of common stock outstanding.

CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

Certain information set forth in this report may contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the "safe harbor" created by that section. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, can generally be identified by the use of forward-looking terms such as "believe," "expect," "may," "will," "should," "could," "would," "seek," "intend," "plan," "goal," "project," "estimate," "anticipate" "strategy," "future," "likely" or other comparable terms and references to future periods. All statements other than statements of historical facts included in this report regarding our strategies, prospects, financial condition, operations, costs, plans and objectives are forward-looking statements. Examples of forward-looking statements include, among others, statements we make regarding the expansion of our lease-to-own program, expectations concerning our partnerships with retail partners, investments in, and the success of, our underwriting technology and risk analytics platform, our ability to collect payments due from customers, expected future operating results, and expectations concerning our business strategy.

Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following:

- our limited operating history, limited cash and history of losses;
- our ability to obtain adequate financing to fund our business operations in the future;
- the failure to successfully manage and grow our FlexShopper.com e-commerce platform;
- our ability to maintain compliance with financial covenants under our Credit Agreement;
- our dependence on the success of our third-party retail partners and our continued relationships with them;
- our compliance with various federal, state and local laws and regulations, including those related to consumer protection;
- the impact of supply chain shortages and delays on our retail partners and indirectly on us;
- the failure to protect the integrity and security of customer and employee information;
- the impact future inflation will have on our operating results and financial condition;
- the business and financial impact of the continuing COVID-19 pandemic;
- the effects of inflationary pressures on consumer spending; and
- the other risks and uncertainties described in the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections of our Annual Report on Form 10-K for the year ended December 31, 2020.

Any forward-looking statement made by us in this report is based only on information currently available to us and speaks only as of the date on which it is made. We undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise, except as may be required under federal securities law. We anticipate that subsequent events and developments will cause our views to change. You should read this report completely and with the understanding that our actual future results may be materially different from what we expect. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may undertake. We qualify all of our forward-looking statements by these cautionary statements.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FLEXSHOPPER, INC.
CONSOLIDATED BALANCE SHEETS

	September 30, 2021 (unaudited)	December 31, 2020
ASSETS		
CURRENT ASSETS:		
Cash	$ 3,147,926	$ 8,541,232
Accounts receivable, net	19,651,250	10,032,714
Prepaid expenses	1,118,140	869,081
Lease merchandise, net	33,332,854	42,822,340
Total current assets	57,250,170	62,265,367
PROPERTY AND EQUIPMENT, net	7,227,023	5,911,696
OTHER ASSETS, net	78,347	72,316
Total assets	$ 64,555,540	$ 68,249,379
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 3,344,185	$ 7,907,619
Accrued payroll and related taxes	629,876	352,102
Promissory notes to related parties, net of $2,546 at 2021 and net of $8,276 at 2020 of unamortized issuance costs, including accrued interest	4,802,650	4,815,546
Current portion of promissory note – Paycheck Protection Program, including accrued interest	-	1,184,952
Accrued expenses	3,446,104	2,646,800
Lease liability - current portion	164,274	160,726
Total current liabilities	12,387,089	17,067,745
Loan payable under credit agreement to beneficial shareholder, net of $419,307 at 2021 and $61,617 at 2020 of unamortized issuance costs and current portion	34,205,693	37,134,009
Promissory note – Paycheck Protection Program, net of current portion	-	741,787
Accrued payroll and related taxes net of current portion	204,437	204,437
Deferred income tax liability	700,199	-
Lease liabilities net of current portion	1,821,935	1,947,355
Total liabilities	49,319,353	57,095,333
STOCKHOLDERS' EQUITY		
Series 1 Convertible Preferred Stock, $0.001 par value - authorized 250,000 shares, issued and outstanding 170,332 shares at $5.00 stated value	851,660	851,660
Series 2 Convertible Preferred Stock, $0.001 par value - authorized 25,000 shares, issued and outstanding 21,952 shares at $1,000 stated value	21,952,000	21,952,000
Common stock, $0.0001 par value- authorized 40,000,000 shares, issued and outstanding 21,390,944 shares at 2021 and 21,359,945 shares at 2020	2,139	2,136
Additional paid in capital	38,286,010	36,843,326
Accumulated deficit	(45,855,622)	(48,495,076)
Total stockholders' equity	15,236,187	11,154,046
	$ 64,555,540	$ 68,249,379

The accompanying notes are an integral part of these consolidated statements.

FLEXSHOPPER, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	**2020**	**2021**	**2020**
Revenues:				
Lease revenues and fees, net	$ 29,134,709	$ 23,391,348	$ 88,876,167	$ 69,989,333
Lease merchandise sold	1,726,226	1,178,716	5,456,991	3,953,608
Total revenues	30,860,935	24,570,064	94,333,158	73,942,941
Costs and expenses:				
Cost of lease revenues, consisting of depreciation and impairment of lease merchandise	16,936,374	14,886,798	56,001,355	46,982,002
Cost of lease merchandise sold	1,235,601	763,728	4,300,224	2,685,599
Marketing	1,824,402	1,650,717	5,571,237	3,619,911
Salaries and benefits	2,672,864	2,499,235	8,329,188	7,324,620
Operating expenses	4,325,825	3,528,890	13,654,038	10,037,743
Total costs and expenses	26,995,066	23,329,368	87,856,042	70,649,875
Operating income	3,865,869	1,240,696	6,477,116	3,293,066
Gain on extinguishment of debt	-	-	1,931,825	-
Interest expense including amortization of debt issuance costs	(1,233,617)	(951,336)	(3,855,014)	(3,214,083)
Income before income taxes	2,632,252	289,360	4,553,927	78,983
Provision for income taxes	(936,229)	-	(1,914,473)	-
Net income	1,696,023	289,360	2,639,454	78,983
Deemed dividend from exchange offer of warrants	-	-	-	713,212
Dividends on Series 2 Convertible Preferred Shares	609,777	609,772	1,829,322	1,829,217
Net income/(loss) attributable to common and Series 1 Convertible Preferred shareholders	$ 1,086,246	$ (320,412)	$ 810,132	$ (2,463,446)
Basic and diluted income/(loss) per common share:				
Basic	$ 0.05	$ (0.02)	$ 0.04	$ (0.12)
Diluted	$ 0.05	$ (0.02)	$ 0.03	$ (0.12)
WEIGHTED AVERAGE COMMON SHARES:				
Basic	21,608,878	21,358,141	21,603,209	20,872,940
Diluted	23,577,179	21,358,141	23,682,265	20,872,940

The accompanying notes are an integral part of these consolidated statements.

FLEXSHOPPER, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the nine months ended September 30, 2021 and 2020
(unaudited)

	Series 1 Convertible Preferred Stock		Series 2 Convertible Preferred Stock		Common Stock		Additional Paid in	Accumulated	
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	Total
Balance, January 1, 2021	170,332	851,660	21,952	21,952,000	21,359,945	2,136	36,843,326	(48,495,076)	11,154,046
Provision for compensation expense related to stock options	-	-	-	-	-	-	380,263	-	380,263
Issuance of warrants in connection with consulting agreement	-	-	-	-	-	-	212,923	-	212,923
Exercise of stock options into common stock	-	-	-	-	16,000	2	12,910	-	12,912
Net income	-	-	-	-	-	-	-	1,237	1,237
Balance, March 31, 2021	170,332	851,660	21,952	21,952,000	21,375,945	2,138	37,449,422	(48,493,839)	11,761,381
Provision for compensation expense related to stock options	-	-	-	-	-	-	249,222	-	249,222
Issuance of warrants in connection with consulting agreement	-	-	-	-	-	-	191,926	-	191,926
Exercise of stock options into common stock	-	-	-	-	5,333	0	4,214	-	4,214
Net income	-	-	-	-	-	-	-	942,194	942,194
Balance, June 30, 2021	170,332	851,660	21,952	21,952,000	21,381,278	2,138	37,894,784	(47,551,645)	13,148,937
Provision for compensation expense related to stock options	-	-	-	-	-	-	265,407	-	265,407
Issuance of warrants in connection with consulting agreement	-	-	-	-	-	-	117,958	-	117,958
Exercise of stock options into common stock	-	-	-	-	9,666	1	7,861	-	-
Net income	-	-	-	-	-	-	-	1,696,023	1,696,023
Balance, September 30, 2021	170,332	851,660	21,952	21,952,000	21,390,944	2,139	38,286,010	(45,855,622)	15,236,187

	Series 1 Convertible Preferred Stock		Series 2 Convertible Preferred Stock		Common Stock		Additional Paid in	Accumulated	
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	Total
Balance, January 1, 2020	171,191	$ 855,955	21,952	$ 21,952,000	17,783,960	$ 1,779	$ 35,313,721	$ (48,155,180)	$ 9,968,275
Provision for compensation expense related to stock options	-	-	-	-	-	-	171,815	-	171,815
Issuance of warrants in connection with consulting agreement	-	-	-	-	-	-	43,999	-	43,999
Exercise of warrants into common stock	-	-	-	-	105,000	10	131,240	-	131,250
Exchange offer of warrants	-	-	-	-	3,462,683	346	(346)	-	-
Net loss	-	-	-	-	-	-	-	(51,685)	(51,685)
Balance, March 31, 2020	171,191	$ 855,955	21,952	$ 21,952,000	21,351,643	$ 2,135	$ 35,660,429	$ (48,103,495)	$ 10,367,024
Provision for compensation expense related to stock options	-	-	-	-	-	-	452,033	-	452,033
Issuance of warrants in connection with consulting agreement	-	-	-	-	-	-	95,481	-	95,481
Exercise of stock options into common stock	-	-	-	-	3,333	1	2,633	-	2,634
Conversion of preferred stock to common stock	(859)	(4,295)	-	-	1,136	-	4,295		
Net Income	-	-	-	-	-	-	-	(262,062)	(262,062)
Balance, June 30, 2020	170,332	851,660	21,952	21,952,000	21,356,112	2,136	36,214,871	(48,365,557)	10,655,110
Provision for compensation	-	-	-	-	-	-	169,393	-	169,393

expense related to stock options									
Issuance of warrants in connection with consulting agreeme	-	-	-	-	-	-	119,560	-	119,560
Exercise of stock options into common stock	-	-	-	-	3,333	-	2,633		2,633
Net Income	-	-	-	-	-	-	-	289,360	289,360
Balance, September 30, 2020	170,332	$ 851,660	21,952	$ 21,952,000	21,359,445	$ 2,136	36,506,457	(48,076,197)	11,236,056

The accompanying notes are an integral part of these consolidated statements.

FLEXSHOPPER, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the nine months ended September 30, 2021 and 2020
(unaudited)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,639,454	$ 78,983
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and impairment of lease merchandise	56,001,355	46,982,002
Other depreciation and amortization	2,032,811	1,655,407
Amortization of debt issuance costs	177,647	234,283
Compensation expense related to issuance of stock options and warrants	1,417,699	1,052,281
Provision for doubtful accounts	30,622,139	23,643,556
Interest in kind added to promissory notes balance	9,460	7,814
Deferred income tax	700,199	-
Gain on debt extinguishment	(1,931,825)	-
Changes in operating assets and liabilities:		
Accounts receivable	(40,240,674)	(23,226,544)
Prepaid expenses and other	(248,203)	(120,482)
Lease merchandise	(46,511,869)	(46,577,002)
Security deposits	(8,338)	2,943
Lease Liabilities	(2,595)	-
Accounts payable	(4,563,434)	485,878
Accrued payroll and related taxes	277,774	62,108
Accrued expenses	788,228	273,903
Net cash provided by operating activities	1,159,828	4,555,130
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment, including capitalized software costs	(3,459,424)	(2,099,654)
Net cash used in investing activities	(3,459,424)	(2,099,654)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan payable under credit agreement	4,000,000	2,412,000
Repayment of loan payable under credit agreement	(6,575,000)	(7,023,250)
Debt issuance related costs	(529,608)	-
Proceeds from exercise of warrants	-	131,250
Proceeds from exercise of stock options	24,988	5,267
Proceeds from promissory notes, net of fees	-	1,914,100
Principal payment under finance lease obligation	(5,684)	(4,891)
Repayment of instalment loan	(8,406)	(8,405)
Net cash used in financing activities	(3,093,710)	(2,573,929)
DECREASE IN CASH	(5,393,306)	(118,453)
CASH, beginning of period	$ 8,541,232	$ 6,868,472
CASH, end of period	$ 3,147,926	$ 6,750,019
Supplemental cash flow information:		
Interest paid	$ 3,702,949	$ 3,021,833
Deemed dividend from exchange offer of warrants	$ -	$ 713,212
Conversion of preferred stock to common stock	$ -	$ 4,295

The accompanying notes are an integral part of these consolidated statements.

1. BASIS OF PRESENTATION

The interim financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 8 of Regulation S-X and in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to interim financial information. Accordingly, the information presented in the interim financial statements does not include all information and disclosures necessary for a fair presentation of FlexShopper, Inc.'s financial position, results of operations and cash flows in conformity with GAAP for annual financial statements. In the opinion of management, these financial statements reflect all adjustments consisting of normal recurring accruals, necessary for a fair statement of our financial position, results of operations and cash flows for such periods. The results of operations for any interim period are not necessarily indicative of the results for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto contained in FlexShopper, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2020 filed with the SEC on March 8, 2021.

The consolidated balance sheet as of December 31, 2020 contained herein has been derived from audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements.

2. BUSINESS

FlexShopper, Inc. (the "Company") is a corporation organized under the laws of the State of Delaware in 2006. The Company owns 100% of FlexShopper, LLC, a North Carolina limited liability company and owns 100% of FlexLending, LLC, a Delaware limited liability company. The Company is a holding corporation with no operations except for those conducted by FlexShopper LLC and its subsidiary FlexLending, LLC.

In January 2015, in connection with the Credit Agreement entered in March 2015 (see Note 7), FlexShopper 1 LLC and FlexShopper 2 LLC were organized as wholly owned Delaware subsidiaries of FlexShopper LLC to conduct operations. FlexShopper Inc, together with its subsidiaries, are hereafter referred to as "FlexShopper."

FlexShopper provides through e-commerce sites, certain types of durable goods to consumers on a lease-to-own basis ("LTO") including consumers of third-party retailers and e-tailers. The Company effects these transactions by first approving consumers through its proprietary, risk analytics-powered underwriting model. After receiving a signed consumer lease, the Company then funds the leased item by purchasing the item from the Company's merchant partner and leasing it to the consumer. The Company then collects payments from consumers under their consumer lease.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries after elimination of intercompany balances and transactions.

Estimates - The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition - Merchandise is leased to customers pursuant to lease purchase agreements which provide for weekly lease terms with non-refundable lease payments. Generally, the customer has the right to acquire title either through a 90-day same as cash option, an early purchase option, or through payments of all required lease payments, generally 52 weeks, for ownership. On any current lease, customers have the option to cancel the agreement in accordance with lease terms and return the merchandise. Accordingly, customer agreements are accounted for as operating leases with lease revenues recognized in the month they are due on the accrual basis of accounting. Merchandise sales revenue is recognized when the customer exercises the purchase option and pays the purchase price. Revenue for lease payments received prior to their due date is deferred and recognized as revenue in the period to which the payments relate. Revenues from leases and sales are reported net of sales taxes.

Accounts Receivable and Allowance for Doubtful Accounts - FlexShopper seeks to collect amounts owed under its leases from each customer on a weekly or biweekly basis by charging their bank accounts or credit cards. Accounts receivable are principally comprised of lease payments currently owed to FlexShopper which are past due, as FlexShopper has been unable to successfully collect in the manner described above. The allowance for doubtful accounts is based upon revenues and historical experience of balances charged off as a percentage of revenues. The accounts receivable balances consisted of the following as of September 30, 2021 and December 31, 2020:

	September 30, 2021	December 31, 2020
Accounts receivable	$ 44,902,037	$ 32,171,255
Allowance for doubtful accounts	(25,250,787)	(22,138,541)
Accounts receivable, net	$ 19,651,250	$ 10,032,714

The allowance is a significant percentage of the balance because FlexShopper does not charge off any customer account until it has exhausted all collection efforts with respect to each account, including attempts to repossess items. In addition, while collections are pursued, the same delinquent customers continue to accrue weekly charges until they are charged off. As the customer ages, the greater the allowance attributable to that account to reflect the decreased likelihood of successful collection efforts. Accounts receivable balances charged off against the allowance were $18,467,220 and $27,509,893 for the three and nine months ended September 30, 2021 respectively and $4,813,162 and $16,830,382 for the three and nine months ended September 30, 2020, respectively.

	Nine Months Ended September 30, 2021	Year Ended December 31, 2020
Beginning balance	$ 22,138,541	$ 9,976,941
Provision	30,622,139	31,930,714
Accounts written off	(27,509,893)	(19,769,114)
Ending balance	$ 25,250,787	$ 22,138,541

Lease Merchandise - Until all payment obligations for ownership are satisfied under the lease agreement, the Company maintains ownership of the lease merchandise. Lease merchandise consists primarily of residential furniture, consumer electronics, computers, appliances and household accessories and is recorded at cost net of accumulated depreciation. The Company depreciates leased merchandise using the straight-line method over the applicable agreement period for a consumer to acquire ownership, generally twelve months with no salvage value. Upon transfer of ownership of merchandise to customers resulting from satisfaction of their lease obligations, the related cost and accumulated depreciation are eliminated from lease merchandise. For lease merchandise returned or anticipated to be returned either voluntarily or through repossession, the Company provides an impairment reserve for the undepreciated balance of the merchandise net of any estimated salvage value with a corresponding charge to cost of lease revenue. The cost, accumulated depreciation and impairment reserve related to such merchandise are written off upon determination that no salvage value is obtainable.

The net leased merchandise balances consisted of the following as of September 30, 2021 and December 31, 2020:

	September 30, 2021	December 31, 2020
Lease merchandise at cost	$ 76,187,372	$ 64,335,971
Accumulated depreciation	(38,655,591)	(19,162,357)
Impairment reserve	(4,198,927)	(2,351,274)
Lease merchandise, net	$ 33,332,854	$ 42,822,340

Cost of lease merchandise sold represents the undepreciated cost of rental merchandise at the time of sale.

Lease accounting

The Company accounts for leases in accordance with Accounting Standards Codification (ASC) Topic 842 Leases (Topic 842). Under Topic 842, lessees are required to recognize for all leases at the commencement date as lease liability, which is a lessee's obligation to make lease payments arising from a lease measured on a discounted basis, and a right-to-use asset, which is an asset that represents the lessee's right to use or control the use of a specified asset for the lease term. Under the same Topic, lessors are also required to classify leases. All the Company's customer agreements are considered operating leases, and the Company currently does not have any sales-type or direct financing leases. An operating lease results in the recognition of lease income on a straight-line basis, while the underlying leased asset remains on the lessor's balance sheet and continues to depreciate.

The breakout of lease revenues and fees, net of lessor bad debt expense, that ties the consolidated statements of operations is shown below:

	Nine Months ended September 30,	
	2021	2020
Lease billings and accruals	$ 119,498,306	$ 93,632,889
Provision for doubtful accounts	(30,622,139)	(23,643,556)
Lease revenues and fees	$ 88,876,167	$ 69,989,333

Deferred Debt Issuance Costs - Debt issuance costs incurred in conjunction with the Credit Agreement entered into on March 6, 2015, and subsequent amendments are offset against the outstanding balance of the loan payable and are amortized using the straight-line method over the remaining term of the related debt, which approximates the effective interest method. Amortization, which is included in interest expense, was $41,794 and $171,918 for the three and nine months ended September 30, 2021, respectively, and $45,912 and $216,536 for the three and nine months ended September 30, 2020, respectively.

Debt issuance costs incurred in conjunction with the subordinated Promissory Notes are offset against the outstanding balance of the loan payable and are amortized using the straight-line method over the remaining term of the related debt, which approximates the effective interest method. Amortization, which is included in interest expense, was $1,273 and $5,729 for the three and nine months ended September 30, 2021 and $4,138 and $17,747 for the three and nine months ended September 30, 2020, respectively.

Intangible Assets - Intangible assets consist of a patent on the Company’s LTO payment method at check-out for third party e-commerce sites. Patents are stated at cost less accumulated amortization. Patent costs are amortized by using the straight-line method over the legal life, or if shorter, the useful life of the patent, which has been estimated to be 10 years. Intangible assets amortization expense was $769 and $2,307 for the three and nine months ended September 30, 2021, respectively, and $769 and $2,307 for the three and nine months ended September 30, 2020, respectively.

Software Costs - Costs related to developing or obtaining internal-use software incurred during the preliminary project and post-implementation stages of an internal use software project are expensed as incurred and certain costs incurred in the project’s application development stage are capitalized as property and equipment. The Company expenses costs related to the planning and operating stages of a website. Costs associated with minor enhancements and maintenance for the website are included in expenses as incurred. Direct costs incurred in the website’s development stage are capitalized as property and equipment. Capitalized software costs amounted to $900,031 and $2,015,746 for the three and nine months ended September 30, 2021, respectively, and $606,500 and $1,804,858 for the three and nine months ended September 30, 2020, respectively. Capitalized software amortization expense was $572,195 and $1,726,199 for the three and nine months ended September 30, 2021, respectively, and $544,475 and $1,550,459 for the three and nine months ended September 30, 2020.

Data Costs – The Company buys data from different vendors upon receipt of an application. The data costs directly used to make underwriting decision are expensed as incurred. Certain data costs that are probable to provide future economic benefit to the Company are capitalized as property and equipment and amortized on a straight-line basis over their estimate useful lives. The probability to provide future economic benefit of the data cost assets is estimated based upon future usage of the information on different areas and products of the Company. At the beginning of the third quarter of 2021, the Company made several changes remarked by the implementation of a more discipline process around data procurement and storage. Those improvements triggered a change in the estimate of the probability to provide future economic benefit of some data cost.

Capitalized data costs amounted to $461,380 for the three and nine months ended September 30, 2021. Capitalized data costs amortization expense was $24,406 for the three and nine months ended September 30, 2021.

Operating Expenses - Operating expenses include corporate overhead expenses such as salaries, stock-based compensation, insurance, occupancy, and other administrative expenses.

Marketing Costs - Marketing costs, primarily consisting of advertising, are charged to expense as incurred. Direct acquisition costs, primarily consisting of commissions earned based on lease originations, are capitalized and amortized over the life of the lease.

Per Share Data - Per share data is computed by use of the two-class method as a result of outstanding Series 1 Convertible Preferred Stock, which participates in dividends with the common stock and accordingly has participation rights in undistributed earnings as if all such earnings had been distributed during the period (see Note 8). Under such method income available to common shareholders is computed by deducting both dividends declared or, if not declared, accumulated on Series 2 Convertible Preferred Stock from income from continuing operations and from net income. Loss attributable to common shareholders is computed by increasing loss from continuing operations and net loss by such dividends. Where the Company has undistributed net income available to common shareholders, basic earnings per common share is computed based on the total of any dividends paid or declared per common share plus undistributed income per common share determined by dividing net income available to common shareholders reduced by any dividends paid or declared on common and participating Series 1 Convertible Preferred Stock by the total of the weighted average number of common shares outstanding plus the weighted average number of common shares issuable upon conversion of outstanding participating Series 1 Convertible Preferred Stock during the period. Where the Company has a net loss, basic per share data (including income from continuing operations) is computed based solely on the weighted average number of common shares outstanding during the period. As the participating Series 1 Convertible Preferred Stock has no contractual obligation to share in the losses of the Company, common shares issuable upon conversion of such preferred stock are not included in such computations.

Diluted earnings per share is based on the more dilutive of the if-converted method (which assumes conversion of the participating Series 1 Convertible Preferred Stock as of the beginning of the period) or the two-class method (which assumes that the participating Series 1 Convertible Preferred Stock is not converted) plus the potential impact of dilutive non-participating Series 2 Convertible Preferred Stock, options and warrants. The dilutive effect of stock options and warrants is computed using the treasury stock method, which assumes the repurchase of common shares at the average market price during the period. Under the treasury stock method, options and warrants will have a dilutive effect when the average price of common stock during the period exceeds the exercise price of options or warrants. When there is a loss from continuing operations, potential common shares are not included in the computation of diluted loss per share, since they have an anti-dilutive effect.

In computing diluted income/(loss) per share for the nine months ended September 30, 2021 and the nine months ended September 30, 2020, no effect has been given to the issuance of common stock upon conversion or exercise of the Series 2 Convertible Preferred Stock as their effect is anti-dilutive.

The following table reflects a change in the conversion rates of the Series 1 Convertible Preferred Stock and Series 2 Convertible Preferred Stock due to anti-dilution adjustments as a result of FlexShopper's induced conversion of warrants occurred in February 2020.

	Nine Months ended September 30,	
	2021	**2020**
Series 1 Convertible Preferred Stock	225,231	225,231
Series 2 Convertible Preferred Stock	5,845,695	5,845,695
Series 2 Convertible Preferred Stock issuable upon exercise of warrants	116,903	116,903
Common Stock Options	3,113,715	2,622,869
Common Stock Warrants	2,432,488	1,992,488
	11,734,032	10,803,186

The following table sets forth the computation of basic and diluted earnings per common share for the nine months ended September 30, 2021 and 2020:

	Nine Months ended September 30,	
	2021	**2020**
Numerator		
Net income	$ 2,639,454	78,983
Convertible Series 2 Preferred Share dividends	(1,829,322)	(1,829,217)
Net income/(loss) attributable to common and Series 1 Convertible Preferred Stock	810,132	(1,750,234)
Deemed dividend from exchange offer of warrants	-	(713,212)
Convertible Series 2 Preferred Share dividends attributable to Series 1 Convertible Preferred Stock	19,072	-
Net income attributable to Series 1 Convertible Preferred Stock	(27,518)	-
Net income/(loss) attributable to common shares - Numerator for basic and diluted EPS	$ 801,686	(2,463,446)
Denominator		
Weighted average of common shares outstanding	21,377,978	20,872,940
Weighted average of common shares issuable upon conversion of outstanding Series 1 Convertible Preferred Stock	225,231	-
Denominator for basic EPS- weighted average shares	21,603,209	20,872,940
Effect of dilutive securities:		
Common stock options	1,244,353	-
Common stock warrants	834,703	-
Denominator for diluted EPS – adjusted weighted average shares	23,682,265	20,872,940
Basic EPS	$ 0.04	(0.12)
Diluted EPS	$ 0.03	(0.12)

The following table sets forth the computation of basic and diluted earnings per common share for the three months ended September 30, 2021 and 2020:

	Three Months ended September 30,	
	2021	**2020**
Numerator		
Net income	$ 1,696,023	289,360
Convertible Series 2 Preferred Share dividends	(609,777)	(609,772)
Net income/(loss) attributable to common and Series 1 Convertible Preferred Stock	1,086,246	(320,412)
Convertible Series 2 Preferred Share dividends attributable to Series 1 Convertible Preferred Stock	6,356	-
Net income attributable to Series 1 Convertible Preferred Stock	(17,678)	-
Net income/(loss) attributable to common shares - Numerator for basic and diluted EPS	$ 1,074,924	(320,412)
Denominator		
Weighted average of common shares outstanding	21,383,647	21,358,141
Weighted average of common shares issuable upon conversion of outstanding Series 1 Convertible Preferred Stock	225,231	-
Denominator for basic EPS- weighted average shares	21,608,878	21,358,141
Effect of dilutive securities:		
Common stock options	1,112,537	-
Common stock warrants	855,764	-
Denominator for diluted EPS – adjusted weighted average shares	23,577,179	21,358,141
Basic EPS	$ 0.05	(0.02)
Diluted EPS	$ 0.05	(0.02)

Stock-Based Compensation - The fair value of transactions in which the Company exchanges its equity instruments for employee and non-employee services (share-based payment transactions) is recognized as an expense in the financial statements as services are performed.

Compensation expense is determined by reference to the fair value of an award on the date of grant and is amortized on a straight-line basis over the vesting period. The Company has elected to use the Black-Scholes-Merton (BSM) pricing model to determine the fair value of all stock option awards.

Fair Value of Financial Instruments - The carrying value of certain financial instruments such as cash, accounts receivable, and accounts payable approximate their fair value due to their short-term nature. The carrying value of loans payable under the Credit Agreement increased by unamortized issuance costs approximates fair value. The carrying value of promissory notes to related parties approximates fair value based upon their interest rates, which approximate current market interest rates.

Income Taxes - Deferred tax assets and liabilities are determined based on the estimated future tax effects of net operating loss carryforwards and temporary differences between the tax bases of assets and liabilities and their respective financial reporting amounts measured at the current enacted tax rates. The Company records a valuation allowance for its deferred tax assets when management concludes that it is not more likely than not that such assets will be recognized.

The Company recognizes a tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. As of September 30, 2021, and 2020, the Company had not recorded any unrecognized tax benefits. Interest and penalties related to liabilities for uncertain tax positions will be charged to interest and operating expenses, respectively.

4. LEASES

Refer to Note 2 to these consolidated financial statements for further information about the Company's revenue generating activities as a lessor. All the Company's customer agreements are considered operating leases, and the Company currently does not have any sales-type or direct financing leases.

Lease Commitments

In August 2017, FlexShopper entered into a 12-month lease with two additional three-year options for retail store space in West Palm Beach, Florida. In April 2018, FlexShopper exercised its option to extend the term of the lease to September 30, 2021. In March 2021, FlexShopper and the lessor agreed on the early termination of the lease for this property. The monthly rent for this space was approximately $2,300 per month.

In January 2019, FlexShopper entered into a 108-month lease with an option for one additional five-year term for 21,622 square feet of office space in Boca Raton, FL to accommodate FlexShopper's business and its employees (the "January 2019 Lease"). The monthly rent for this space is approximately $31,500 with annual three percent increases throughout the initial 108-month lease term beginning on the anniversary of the commencement date.

The rental expense for the nine months ended September 30, 2021 and 2020 was approximately $492,000 and $519,000 respectively. At September 30, 2021, the future minimum annual lease payments are approximately as follows:

2021	$ 103,000
2022	417,000
2023	427,000
2024	435,000
2025	443,000
Thereafter	1,230,000
	$ 3,055,000

The Company determines if an arrangement is a lease at inception. Operating lease assets and liabilities are included in the Company's consolidated balance sheets beginning January 1, 2019.

Supplemental balance sheet information related to leases is as follows:

	Balance Sheet Classification	September 30, 2021	December 31, 2020
Assets			
Operating Lease Asset	Property and Equipment, net	$ 1,566,055	$ 1,673,432
Finance Lease Asset	Property and Equipment, net	20,890	27,106
Total Lease Assets		$ 1,586,945	$ 1,700,538
Liabilities			
Operating Lease Liability - current portion	Current Lease Liabilities	$ 155,766	$ 153,019
Finance Lease Liability - current portion	Current Lease Liabilities	8,508	7,707
Operating Lease Liability - net of current portion	Long Term Lease Liabilities	1,806,562	1,925,498
Finance Lease Liability - net of current portion	Long Term Lease Liabilities	15,373	21,857
Total Lease Liabilities		$ 1,986,209	$ 2,108,081

Operating lease assets and liabilities are recognized at the present value of the future lease payments at the lease commencement date. The Company uses its incremental borrowing rate as the discount rate for its leases, as the implicit rate in the lease is not readily determinable. The incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in economic environments where the leased asset is located. Operating lease assets also include any prepaid lease payments and lease incentives. The lease terms include periods under options to extend or terminate the lease when it is reasonably certain that the Company will exercise the option. The Company generally uses the base, non-cancelable, lease term when determining the lease assets and liabilities. Under the short-term lease exception provided within ASC 842, the Company does not record a lease liability or right-of-use asset for any leases that have a lease term of 12 months or less at commencement.

Below is a summary of the weighted-average discount rate and weighted-average remaining lease term for the Company's leases:

	Weighted Average Discount Rate	Weighted Average Remaining Lease Term (in years)
Operating Leases	13.03%	7
Finance Leases	13.32%	3

Operating lease expense is recognized on a straight-line basis over the lease term within operating expenses in the Company's consolidated statements of operations. Finance lease expense is recognized over the lease term within interest expense and amortization in the Company's consolidated statements of operations. The Company's total operating and finance lease expense all relate to lease costs and amounted to $97,063 and $110,021 for the three months ended September 30, 2021 and 2020, respectively and $303,871 and $329,094 for the nine months ended September 30, 2021 and 2020, respectively.

Supplemental cash flow information related to operating leases is as follows:

	Nine Months ended September 30,	
	2021	2020
Cash payments for operating leases	$ 300,415	$ 116,860
Cash payments for finance leases	8,388	8,253
New finance lease asset obtained in exchange for lease liabilities	-	4,033

Below is a summary of undiscounted operating lease liabilities as of September 30, 2021. The table also includes a reconciliation of the future undiscounted cash flows to the present value of the operating lease liabilities included in the consolidated balance sheet.

	Operating Leases
2021	$ 100,357
2022	405,443
2023	417,606
2024	430,134
2025	443,038
2026 and thereafter	1,229,925
Total undiscounted cash flows	3,026,503
Less: interest	(1,064,175)
Present value of lease liabilities	$ 1,962,328

Below is a summary of undiscounted finance lease liabilities as of September 30, 2021. The table also includes a reconciliation of the future undiscounted cash flows to the present value of the finance lease liabilities included in the consolidated balance sheet.

	Finance Leases
2021	$ 2,796
2022	11,184
2023	9,699
2024	4,782
Total undiscounted cash flows	28,461
Less: interest	(4,580)
Present value of lease liabilities	$ 23,881

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	Estimated Useful Lives	September 30, 2021	December 31, 2020
Furniture, fixtures and vehicle	2-5 years	$ 391,669	$ 303,285
Website, internal use software and data cost	3 years	14,966,567	12,489,441
Computers and software	3-7 years	2,015,828	1,121,914
		17,374,064	13,914,640
Less: accumulated depreciation and amortization		(11,733,986)	(9,703,482)
		5,640,078	4,211,158
Right of use assets, net		1,586,945	1,700,538
		$ 7,227,023	$ 5,911,696

Depreciation and amortization expense were $707,993 and $592,498 for the three months ended September 30, 2021 and 2020, respectively and 2,030,504 and $1,653,099 for the nine months ended September 30, 2021 and 2020, respectively.

6. PROMISSORY NOTES-RELATED PARTIES

January 2018 Notes - In January 2018, FlexShopper, LLC entered into letter agreement with NRNS Capital Holdings LLC ("NRNS"), the manager of which is the Chairman of the Company's Board of Directors, pursuant to which FlexShopper, LLC issued a subordinated promissory note to NRNS. The principal amount of the January 2018 Note is $1,750,000 as of September 30, 2021. Payments of principal and accrued interest are due and payable by FlexShopper, LLC upon 30 days' prior written notice from the applicable noteholder and the Company can prepay principal and interest at any time without penalty. However, repayment is not permitted without the consent of the Credit Agreement lender. The Notes bear interest at a rate equal to five (5%) per annum in excess of the non-default rate of interest from time to time in effect under the Credit Agreement entered into on March 6, 2015 computed on the basis of a 360-day year, which equaled 16.25% at September 30, 2021.

NRNS amended and restated the Note such that the maturity date of the revised Note was extended to April 1, 2022. As of September 30, 2021, $1,770,338 of principal and accrued and unpaid interest was outstanding on NRNS's Note.

January 2019 Note - On January 25, 2019, FlexShopper, LLC entered into a subordinated debt financing letter agreement with 122 Partners, LLC, as lender, pursuant to which FlexShopper, LLC issued a subordinated promissory note to 122 Partners, LLC (the "January Note") in the principal amount of $1,000,000. H. Russell Heiser, Jr., FlexShopper's Chief Financial Officer, is a member of 122 Partners, LLC. The Company paid a commitment fee of 2% to the lender totaling $20,000. Payment of the principal amount and accrued interest under the January 2019 Note was due and payable by FlexShopper, LLC on April 30, 2020 and FlexShopper, LLC can prepay principal and interest at any time without penalty. Amounts outstanding under the January Note bear interest at a rate equal to 5.00% per annum in excess of the non-default rate of interest from time to time in effect under the Credit Agreement, which equaled 16.25% at September 30, 2021. Obligations under the January Note are subordinated to obligations under the Credit Agreement. The January Note is subject to customary representations and warranties and events of default. If an event of default occurs and is continuing, FlexShopper, LLC may be required to repay all amounts outstanding under the January Note. Obligations under the January Note are secured by essentially all of FlexShopper, LLC's assets, subject to rights of the lenders under the Credit Agreement. On April 30, 2020, pursuant to an amendment to the subordinated debt financing letter agreement, FlexShopper, LLC and 122 Partners, LLC agreed to extend the maturity date of the January Note to April 30, 2021. On March 22, 2021, FlexShopper, LLC executed an amendment to the 122 Partners Note such that the maturity date of the January Note was set at April 1, 2022. No other changes were made to such Note. As of September 30, 2021, $1,011,615 of principal and accrued and unpaid interest was outstanding on the January Note.

February 2019 Note - On February 19, 2019, FlexShopper, LLC entered into a letter agreement with NRNS, the manager of which is the Chairman of the Company's Board of Directors, pursuant to which FlexShopper, LLC issued a subordinated promissory note to NRNS (the "February Note") in the principal amount of $2,000,000. The Company paid a commitment fee of 2% to the lender totaling $40,000. Payment of principal and accrued interest under the February Note was due and payable by FlexShopper, LLC on June 30, 2021 and FlexShopper, LLC can prepay principal and interest at any time without penalty. Amounts outstanding under the February Note bear interest at a rate equal to five percent (5.00%) per annum in excess of the non-default rate of interest from time to time in effect under the Credit Agreement, which equaled 16.25% at September 30, 2021. Obligations under the February Note are subordinated to obligations under the Credit Agreement. The February Note is subject to customary representations and warranties and events of default. If an event of default occurs and is continuing, FlexShopper, LLC may be required to repay all amounts outstanding under the February Note. Obligations under the February Note are secured by essentially all of FlexShopper, LLC's assets, subject to rights of the lenders under the Credit Agreement. On March 22, 2021, FlexShopper, LLC executed an amendment to the NRNS and February Note such that the maturity date was set at April 1, 2022. No other changes were made to such Note. As of September 30, 2021, $2,023,243 of principal and accrued and unpaid interest was outstanding on the February Note.

Amounts payable under the promissory notes are as follows:

	Debt Principal	Interest
2021	$ -	$ 55,196
2022	$ 4,750,000	$ -

Interest expense recognized under these notes amounted to $173,540 and $186,882 for the three months ended September 30, 2021 and 2020, respectively and $521,242 and $593,738 for the nine months ended September 30, 2021 and 2020, respectively.

7. LOAN PAYABLE UNDER CREDIT AGREEMENT

On March 6, 2015, FlexShopper, through a wholly-owned subsidiary ("Borrower"), entered into a credit agreement (as amended from time-to-time, the "Credit Agreement") with Wells Fargo Bank, National Association as paying agent, various lenders from time to time party thereto and WE 2014-1, LLC, an affiliate of Waterfall Asset Management, LLC, as administrative agent and lender ("Lender"). The Borrower is permitted to borrow funds under the Credit Agreement based on FlexShopper's cash on hand and the Amortized Order Value of its Eligible Leases (as such terms are defined in the Credit Agreement) less certain deductions described in the Credit Agreement. Under the terms of the Credit Agreement, subject to the satisfaction of certain conditions, the Borrower may borrow up to $47,500,000 from the Lender until the Commitment Termination Date and must repay all borrowed amounts one year thereafter, on the date that is 12 months following the Commitment Termination Date (unless such amounts become due or payable on an earlier date pursuant to the terms of the Credit Agreement). The Lender was granted a security interest in certain leases as collateral under this Agreement.

On January 29, 2021, the Company and the Lender signed an Omnibus Amendment to the Credit Agreement. This Amendment extended the Commitment Termination Date to April 1, 2024, amended other covenant requirements, partially removed indebtedness covenants and amended eligibility rules. The interest rate charged on amounts borrowed is LIBOR plus 11% per annum. The Company paid the lender a fee of $237,000 in consideration of the execution of this Omnibus Amendment. At September 30, 2021, amounts borrowed bear interest at 11.25%.

The Credit Agreement provides that FlexShopper may not incur additional indebtedness (other than expressly permitted indebtedness) without the permission of the Lender and also prohibits payments of cash dividends on common stock. Additionally, the Credit Agreement includes covenants requiring FlexShopper to maintain a minimum amount of Equity Book Value, maintain a minimum amount of liquidity and cash and maintain a certain ratio of Consolidated Total Debt to Equity Book Value (each capitalized term, as defined in the Credit Agreement). Upon a Permitted Change of Control (as defined in the Credit Agreement), FlexShopper must refinance the debt under the Credit Agreement, subject to the payment of an early termination fee. A summary of the covenant requirements, and FlexShopper's actual results at September 30, 2021, follows:

	September 30, 2021	
	Required Covenant	Actual Position
Equity Book Value not less than	$ 8,000,000	15,236,187
Liquidity greater than	1,500,000	3,147,926
Cash greater than	500,000	3,147,926
Consolidated Total Debt to Equity Book Value ratio not to exceed	5.25	2.56

The Credit Agreement includes customary events of default, including, among others, failures to make payment of principal and interest, breaches or defaults under the terms of the Credit Agreement and related agreements entered into with the Lender, breaches of representations, warranties or certifications made by or on behalf of FlexShopper in the Credit Agreement and related documents (including certain financial and expense covenants), deficiencies in the borrowing base, certain judgments against FlexShopper and bankruptcy events.

As of September 30, 2021, the Company had $165,417 available under the Credit Agreement. Credit availability is subject to a borrowing base which is redetermined from time to time and based on specific advance rates on eligible current assets. As the Company continues to originate lease agreements, new leases will be eligible for the borrowing base and this will open more availability under the Credit Agreement.

Interest expense incurred under the Credit Agreement amounted to $1,015,930 and $3,147,479 for the three and the nine months ended September 30, 2021, respectively, and $708,086 and $2,373,525 for the three and nine months ended September 30, 2020, respectively. As of September 30, 2021, the outstanding balance under the Credit Agreement was $34,625,000. Such amount is presented in the consolidated balance sheet net of unamortized issuance costs of $419,307. Interest is payable monthly on the outstanding balance of the amounts borrowed.

8. CAPITAL STRUCTURE

The Company's capital structure consists of preferred and common stock as described below:

Preferred Stock

The Company is authorized to issue 500,000 shares of $0.001 par value preferred stock. Of this amount, 250,000 shares have been designated as Series 1 Convertible Preferred Stock and 25,000 shares have been designated as Series 2 Convertible Preferred Stock. The Company's Board of Directors determines the rights and preferences of the Company's preferred stock.

- Series 1 Convertible Preferred Stock - Series 1 Convertible Preferred Stock ranks senior to common stock upon liquidation.

  As of September 30, 2021, each share of Series 1 Convertible Preferred Stock was convertible into 1.32230 shares of the Company's common stock, subject to certain anti-dilution rights. The holders of the Series 1 Convertible Preferred Stock have the option to convert the shares to common stock at any time. Upon conversion, all accumulated and unpaid dividends, if any, will be paid as additional shares of common stock. The holders of Series 1 Convertible Preferred Stock have the same dividend rights as holders of common stock, as if the Series 1 Convertible Preferred Stock had been converted to common stock.

  As of September 30, 2021, there were 170,332 shares of Series 1 Convertible Preferred Stock outstanding, which were convertible into 225,231 shares of common stock.

- Series 2 Convertible Preferred Stock - The Company sold to B2 FIE V LLC (the "Investor"), an entity affiliated with Pacific Investment Management Company LLC, 20,000 shares of Series 2 Convertible Preferred Stock ("Series 2 Preferred Stock") for gross proceeds of $20.0 million. The Company sold an additional 1,952 shares of Series 2 Preferred Stock to a different investor for gross proceeds of $1.95 million at a subsequent closing.

  The Series 2 Preferred Shares were sold for $1,000 per share (the "Stated Value") and accrue dividends on the Stated Value at an annual rate of 10% compounded annually. Cumulative accrued dividends as of September 30, 2021 totaled approximately $12,661,394. As of September 30, 2021, each Series 2 Preferred Share was convertible into approximately 266 shares of common stock; however, the conversion rate is subject to further increase pursuant to a weighted average anti-dilution provision. The holders of the Series 2 Preferred Stock have the option to convert such shares into shares of common stock and have the right to vote with holders of common stock on an as-converted basis. If the average closing price during any 45-day consecutive trading day period or change of control transaction values the common stock at a price equal to or greater than $23.00 per share, then conversion shall be automatic. Upon a Liquidation Event or Deemed Liquidation Event (each as defined), holders of Series 2 Preferred Stock shall be entitled to receive out of the assets of the Company prior to and in preference to the common stock and Series 1 Convertible Preferred Stock an amount equal to the greater of (1) the Stated Value, plus any accrued and unpaid dividends thereon, and (2) the amount per share as would have been payable had all shares of Series 2 Preferred Stock been converted to common stock immediately before the Liquidation Event or Deemed Liquidation Event.

Common Stock

The Company is authorized to issue 40,000,000 shares of common stock, par value $0.0001 per share. Each share of common stock entitles the holder to one vote at all stockholder meetings. The common stock is traded on the Nasdaq Capital Market under the symbol "FPAY."

Warrants

In September 2018, the Company issued warrants exercisable for 5,750,000 shares of common stock at an exercise price of $1.25 per share (the "Public Warrants"). The warrants were immediately exercisable and expire five years from the date of issuance. The warrants were listed on the Nasdaq Capital Market under the symbol "FPAYW". (See Note 11.)

The Company also issued additional warrants exercisable for an aggregate 1,055,184 shares of common stock at an exercise price of $1.25 per warrant to Mr. Heiser and NRNS in connection with partial conversions of their promissory notes. The warrants are exercisable at $1.25 per share of common stock and expire on September 28, 2023.

In connection with the issuance of Series 2 Convertible Preferred Stock in June 2016, the Company issued to the placement agent in such offering warrants exercisable for 439 shares of Series 2 Convertible Preferred Stock at an initial exercise price of $1,250 per share, which expire seven years after the date of issuance.

As part of a consulting agreement with XLR8 Capital Partners LLC (the "Consulting Agreement"), an entity of which the Company's Chairman is manager, the Company agreed to issue 40,000 warrants to XLR8 Capital Partners LLC monthly for 12 months beginning on March 1, 2019 at an exercise price of $1.25 per share or, if the closing share price on the last day of the month exceeds $1.25, then such exercise price will be 110% of the closing share price. The warrants are immediately exercisable and expire following the close of business on June 30, 2023. In February 2020, this agreement was extended for an additional six months through August 31, 2020. On August 30, 2020, the parties entered into an amendment to the Consulting Agreement to further extend the term for another six-month period through February 28, 2021. The Consulting Agreement automatically renewed for one successive six-month period, therefore the new termination date is August 31, 2021. There are no additional automatic renewals. The Consulting Agreement and amendments were approved by the Company's Compensation Committee.

The August 2020 amendment also modified the alternative minimum exercise price of the monthly warrant consideration issuable to the Consultant to $1.60 per share going forward, and the expiration date of the warrants to the date that is four years following the last trading day of the calendar month relating to the applicable monthly warrant issuance.

During the nine months ended September 30, 2021, the Company recorded an expense of $522,808 based on a weighted average grant date fair value of $1.63 per warrant.

Grant Date	Warrants Granted	Expense Recorded	Grant date fair value Per Warrant
January 31, 2021	40,000	$ 73,595	$ 1.84
February 29, 2021	40,000	76,318	1.91
March 31, 2021	40,000	63,010	1.58
April 30, 2021	40,000	60,542	1.51
May 31, 2021	40,000	63,156	1.58
June 30, 2021	40,000	68,228	1.71
July 31, 2021	40,000	55,658	1.39
August 31, 2021	40,000	62,301	1.56
	320,000	522,808	1.63

The following table summarizes information about outstanding stock warrants as of September 30, 2021, all of which are exercisable:

Exercise Price		Common Stock Warrants Outstanding	Series 2 Preferred Stock Warrants Outstanding	Weighted Average Remaining Contractual Life
$	1.25	1,215,184		2 years
$	1.34	40,000		2 years
$	1.40	40,000		2 years
$	1.54	40,000		2 years
$	1.62	40,000		2 years
$	1.68	40,000		3 years
$	1.69	40,000		2 years
$	1.74	40,000		2 years
$	1.76	40,000		2 years
$	1.91	40,000		2 years
$	1.95	40,000		3 years
$	2.00	40,000		2 years
$	2.01	40,000		2 years
$	2.08	40,000		3 years
$	2.45	40,000		2 years
$	2.53	40,000		2 years
$	2.57	40,000		3 years
$	2.70	40,000		4 years
$	2.78	40,000		2 years
$	2.79	40,000		4 years
$	2.89	40,000		3 years
$	2.93	40,000		2 years
$	2.97	40,000		4 years
$	3.09	40,000		4 years
$	3.17	40,000		4 years
$	3.19	40,000		4 years
$	3.27	40,000		4 years
$	5.50	177,304		0 years
$	1,250		439*	2 years
		2,432,488	439	

(*) At September 30, 2021, these warrants were convertible into 116,903 shares of common stock

9. STOCK OPTIONS

On April 26, 2018 at the Company's annual meeting, the Company's stockholders approved the FlexShopper, Inc. 2018 Omnibus Equity Compensation Plan (the "2018 Plan"). Upon the 2018 Plan's approval, approximately 1,057,000 shares of Company common stock were available for issuance thereunder. The 2018 Plan replaced the Prior Plans. No new awards will be granted under the Prior Plans; however, awards outstanding under the Prior Plans upon approval of the 2018 Plan remain subject to and will be settled with shares under the applicable Prior Plan.

On February 21, 2019, the Company's Board of Directors approved Amendment No. 1 to the 2018 Plan, subject to stockholder approval. On May 2, 2019, the Company's stockholders approved the 2018 Plan Amendment that increased (a) the total number of shares available for issuance under the 2018 Plan by 1,000,000 shares and (b) the number of shares available for issuance as "incentive stock options" within the meaning of Internal Revenue Code Section 422 by 1,000,000 shares.

On April 24, 2020, the Company's Board of Directors approved an Amendment to the 2018 Plan, subject to stockholder approval. On June 10, 2020, the Company's stockholders approved the 2018 Plan Amendment that increased (a) the total number of shares available for issuance under the 2018 Plan by 1,000,000 shares and (b) the number of shares available for issuance as "incentive stock options" within the meaning of Internal Revenue Code Section 422 by 1,000,000 shares.

On March 3, 2021, the Company's Board of Directors approved an Amendment to the 2018 Plan, subject to stockholder approval. On June 9, 2021, the Company's stockholders approved the 2018 Plan Amendment that increased (a) the total number of shares available for issuance under the 2018 Plan by 2,000,000 shares and (b) the number of shares available for issuance as "incentive stock options" within the meaning of Internal Revenue Code Section 422 by 2,000,000 shares.

Grants under the 2018 Plan and the Prior Plans consist of incentive stock options, non-qualified stock options, stock appreciation rights, stock awards, stock unit awards, dividend equivalents and other stock-based awards. Employees, directors and consultants and other service providers are eligible to participate in the 2018 Plan and the Prior Plans. Options granted under the 2018 Plan and the Prior Plans vest over periods ranging from immediately upon grant to a three-year period and expire ten years from date of grant.

Activity in stock options for the nine months ended September 30, 2021 and September 30, 2020 is as follows:

	Number of options	**Weighted average exercise price**	**Weighted average contractual term (years)**	**Aggregate intrinsic value**
Outstanding at January 1, 2021	2,595,700	1.92		2,491,026
Granted	592,348	2.52		
Exercise	(30,999)	0.81		68,278
Forfeited	(43,334)	2.13		53,952
Outstanding at September 30, 2021	3,113,715	2.04	6.94	3,855,698
Vested and exercisable at September 30, 2021	2,127,537	2.03	7.02	2,850,630
Outstanding at January 1, 2020	2,004,318	$ 1.72		$ 2,542,361
Granted	691,046	2.52		
Forfeited	(65,829)	0.91		20,048
Expired	(6,666)	0.79		6,032
Outstanding at September 30, 2020	2,622,869	$ 1.95	7.73	$ 1,209,562
Vested and exercisable at September 30, 2020	1,676,871	$ 1.97	8.04	$ 1,000,844

The weighted average grant date fair value of options granted during the nine-month period ended September 30, 2021 and September 30, 2020 was $1.77 and $1.50 per share respectively. The Company measured the fair value of each option award on the date of grant using the Black-Scholes-Merton (BSM) pricing model with the following assumptions:

	Nine Months ended September 30,	
	2021	**2020**
Exercise price	$ 2.38 to 3.09	$ 1.74 to 2.89
Expected life	5 years	5 years
Expected volatility	92%	73%
Dividend yield	0%	0%
Risk-free interest rate	0.31% to 0.98%	0.28% to 1.72%

The expected dividend yield is based on the Company's historical dividend yield. The expected volatility is based on the historical volatility of the Company's common stock. The expected life is based on the simplified expected term calculation permitted by the Securities and Exchange Commission (the "SEC"), which defines the expected life as the average of the contractual term of the options and the weighted-average vesting period for all option tranches. The risk-free interest rate is based on the annual yield on the grant date of a zero-coupon U.S. Treasury bond the maturity of which equals the option's expected life.

The value of stock options is recognized as compensation expense by the straight-line method over the vesting period. Compensation expense recorded for options in the consolidated statements of operations was $265,407 and $894,892 for the three and nine months ended September 30, 2021, respectively, and $169,393 and $793,241 for the three and nine months ended September 30, 2020, respectively. Unrecognized compensation cost related to non-vested options at September 30, 2021 amounted to approximately $995,335 which is expected to be recognized over a weighted average period of 2.66 years.

10. INCOME TAXES

Effective income tax rates for interim periods are based on our estimate of the applicable annual income tax rate. The Company's effective income tax rate varies based upon the estimate of our annual taxable earnings and the allocation of those taxable earnings across the various states in which we operate. Changes in the annual allocation of the Company's activity among these jurisdictions results in changes to the effective tax rate utilized to measure the Company's income tax provision and deferred tax assets and liabilities

The Company's effective income tax rate for the three and nine months ended September 30, 2021 was approximately 36% and 42%, respectively. This was different than the expected federal income tax rate of 21% primarily due to the impact of the valuation allowance provided against our deferred tax assets. Non-taxable income from the forgiveness of PPP loans, non-deductible equity compensation, and state income taxes also impacted the effective tax rate.

Management believes that certain federal and state deferred tax assets as of September 30, 2021 do not satisfy the realization criteria and has recorded a valuation allowance to reduce the carrying value of the Company's deferred tax assets to the extent that realization is not more likely than not. Deferred tax liabilities are recorded to the extent that reversing taxable temporary differences cannot be offset with existing deferred tax assets. Utilization of the Company's NOL carryforwards may be subject to annual limitations under Internal Revenue Code Section 382.

11. EXCHANGE OFFER OF WARRANTS

On February 4, 2020, the Company completed an exchange offer relating to outstanding public warrants, in which the holders of the public warrants were offered 0.62 shares of common stock for each outstanding warrant tendered (the "Warrant Exchange Offer").

In total, 5,351,290 warrants were exchanged for 3,317,812 shares in accordance with the Warrant Exchange Offer.

On February 19, 2020, the Company exchanged all remaining untendered public warrants for common stock at a rate of 0.56 shares per public warrant in accordance with the terms of the Warrant Agreement (the "Mandatory Conversion of Warrants"). In total 258,610 warrants were exchanged for 144,871 shares in this transaction.

As a result of this transaction, the Company recognized a deemed dividend of $713,212 resulting from the excess of the fair value of the common stock over the intrinsic value of the warrants.

12. CONTINGENCIES AND OTHER UNCERTAINTIES

Regulatory inquiries

In the first quarter of 2021, FlexShopper, along with a number of other lease-to-own companies, received a subpoena from the California Department of Financial Protection and Innovation (the "DFPI") requesting the production of documents and information regarding the Company's compliance with state consumer protection laws. The Company is cooperatively engaging with the DFPI in response to its inquiry. Although the Company believes it is in compliance with all applicable consumer protection laws and regulations in California, this inquiry ultimately could lead to an enforcement action and/or a consent order, and substantial costs, including legal fees, fines, penalties, and remediation expenses.

COVID-19

The extent of the impact and effects of the recent outbreak of the coronavirus (COVID-19) on the operation and financial performance of our business will depend on future developments, including the duration and spread of the outbreak, the recovery time of the disrupted supply chains, or the uncertainty with respect to the accessibility of additional liquidity or capital markets, all of which are highly uncertain and cannot be predicted. If the demand for the Company's leases is impacted by this outbreak for an extended period, our results of operations may be materially adversely affected.

13. COMMITMENTS

The Company does not have any commitments other than real property leases (Note 4).

14. PROMISSORY NOTE- PAYCHECK PROTECTION PROGRAM

FlexShopper, LLC (the “Borrower”) applied for and received a loan (the “Loan”) on May 4, 2020, from Customers Bank (the “Lender”) in the principal amount of $1,914,100, pursuant to the Paycheck Protection Program (the “PPP”) under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), which was enacted March 27, 2020, and administered through the U.S. Small Business Administration.

The Loan was evidenced by a promissory note (the “Note”), dated April 30, 2020, issued by the Borrower to the Lender. The Note matured on April 30, 2022, and bore interest at the rate of 1.00% per annum, payable monthly commencing on November 30, 2020, following an initial deferral period as specified under the PPP. The Note might be prepaid by the Borrower at any time prior to maturity with no prepayment penalty. Proceeds from the Loan were available to the Borrower to fund designated expenses, including certain payroll costs, group health care benefits and other permitted expenses, in accordance with the PPP. Under the terms of the PPP, up to the entire sum of the principal amount and accrued interest might be forgiven to the extent the Loan proceeds were used for qualifying expenses as described in the CARES Act and applicable implementing guidance issued by the U.S. Small Business Administration under the PPP.

On June 21, 2021 we were notified that effective April 7, 2021, the U.S. Small Business Administration confirmed the waiver of FlexShopper’s repayment of a $1,914,000 Paycheck Protection Program promissory note issued to the Company on May 4, 2020.

As a result of the PPP promissory note forgiveness, the Company recognized a gain from the extinguishment of the loan, including accrued interest, of $1,931,825.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and the related notes appearing at the end of our Form 10-K for the fiscal year ended December 31, 2020. Some of the information contained in this discussion and analysis or set forth elsewhere in this Form 10-Q, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties. The "Risk Factors" section of our Form 10-K for the fiscal year ended December 31, 2020 should be read for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

At FlexShopper, our highest priority remains the safety, health and well-being of our employees, their families and our communities and we remain committed to serving the needs of our customers. The COVID-19 pandemic is a highly fluid situation and it is not currently possible for us to reasonably estimate the full impact it may have on our financial and operating results. We will continue to evaluate the impact of the COVID-19 pandemic on our business as we learn more and the residual impact of COVID-19 on our industry becomes clearer.

Executive Overview

The results of operations reflect the operations of FlexShopper, LLC (together with the Company and its direct and indirect wholly owned subsidiaries, "FlexShopper"), which provides certain types of durable goods to consumers on a lease-to-own ("LTO") basis and also provides LTO terms to consumers of third-party retailers and e-retailers. FlexShopper began generating revenues from this line of business in December 2013. Management believes that the introduction of FlexShopper's LTO programs support broad untapped expansion opportunities within the U.S. consumer e-commerce and retail marketplaces. FlexShopper and its online LTO platforms provide consumers the ability to acquire durable goods, including electronics, computers and furniture, on an affordable payment, lease basis. Concurrently, e-retailers and retailers that work with FlexShopper may increase their sales by utilizing FlexShopper's online channels to connect with consumers that want to acquire products on an LTO basis. FlexShopper's sales channels include (1) selling directly to consumers via the online FlexShopper.com, an LTO Marketplace featuring thousands of durable goods, (2) utilizing FlexShopper's patent pending LTO payment method at check out on e-commerce sites and through in-store terminals and (3) facilitating LTO transactions with retailers that have not yet become part of the FlexShopper.com LTO marketplace.

Summary of Critical Accounting Policies

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to credit provisions, intangible assets, contingencies, litigation and income taxes. Management bases its estimates and judgments on historical experience as well as various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies, among others, reflect the more significant judgments and estimates used in the preparation of our financial statements.

Accounts Receivable and Allowance for Doubtful Accounts - FlexShopper seeks to collect amounts owed under its leases from each customer on a weekly or biweekly basis by charging their bank accounts or credit cards. Accounts receivable are principally comprised of lease payments currently owed to FlexShopper which are past due as FlexShopper has been unable to successfully collect in the manner described above. An allowance for doubtful accounts is estimated based upon revenues and historical experience of balances charged off as a percentage of revenues. The accounts receivable balances consisted of the following as of September 30, 2021 and December 31, 2020:

	September 30, 2021	December 31, 2020
Accounts receivable	$ 44,902,037	$ 32,171,255
Allowance for doubtful accounts	(25,250,787)	(22,138,541)
Accounts receivable, net	$ 19,651,250	$ 10,032,714

The allowance is a significant percentage of the balance because FlexShopper does not charge off any customer account until it has exhausted all collection efforts with respect to each account, including attempts to repossess items. In addition, while collections are pursued, the same delinquent customers continue to accrue weekly charges until they are charged off. As the customer account ages, the greater the allowance attributable to that account to reflect the decreased likelihood of successful collection efforts. Accounts receivable balances charged off against the allowance were $18,467,220 and $27,509,893 for the three and nine months ended September 30, 2021 respectively and $4,813,162 and $16,830,382 for the three and nine months ended September 30, 2020, respectively.

Lease Merchandise - Until all payment obligations required for ownership are satisfied under the lease agreement, FlexShopper maintains ownership of the lease merchandise. Lease merchandise consists primarily of residential furniture, consumer electronics, computers, appliances and household accessories and is recorded at cost net of accumulated depreciation. The Company depreciates leased merchandise using the straight-line method over the applicable agreement period for a consumer to acquire ownership, generally twelve months with no salvage value. Upon transfer of ownership of merchandise to customers resulting from satisfaction of their lease obligations, the related cost and accumulated depreciation are eliminated from lease merchandise. For lease merchandise returned or anticipated to be returned either voluntarily or through repossession, the Company provides an impairment reserve for the undepreciated balance of the merchandise net of any estimated salvage value with a corresponding charge to cost of lease revenue. The cost, accumulated depreciation and impairment reserve related to such merchandise are written off upon determination that no salvage value is obtainable.

The net leased merchandise balances consisted of the following as of September 30, 2021 and December 31, 2020:

	September 30, 2021	December 31, 2020
Lease merchandise at cost	$ 76,187,372	$ 64,335,971
Accumulated depreciation	(38,655,591)	(19,162,357)
Impairment reserve	(4,198,927)	(2,351,274)
Lease merchandise, net	$ 33,332,854	$ 42,822,340

Cost of lease merchandise sold represents the undepreciated cost of rental merchandise at the time of sale.

Stock Based Compensation - The fair value of transactions in which FlexShopper exchanges its equity instruments for employee services (share-based payment transactions) is recognized as an expense in the financial statements as services are performed. Compensation expense is determined by reference to the fair value of an award on the date of grant and is amortized on a straight-line basis over the vesting period. We have elected to use the Black-Scholes-Merton pricing model ("BSM") to determine the fair value of all stock option awards.

Key Performance Metrics

We regularly review several metrics, including the following key metrics, to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections and make strategic decisions.

Key performance metrics for the three months ended September 30, 2021 and 2020 are as follows:

	Three months ended September 30,			
	2021	2020	$ Change	% Change
Gross Profit:				
Gross lease billings and fees	$ 40,952,142	31,470,706	9,481,436	30.1
Lease merchandise sold	1,726,226	1,178,716	547,510	46.4
Gross billings	42,678,368	32,649,422	10,028,946	30.7
Provision for doubtful accounts	(11,817,433)	(8,079,358)	(3,738,075)	46.3
Net revenues	30,860,935	24,570,064	6,290,871	25.6
Cost of lease revenues, consisting of depreciation and impairment of lease merchandise	(16,936,374)	(14,886,798)	(2,049,576)	13.8
Cost of merchandise sold	(1,235,601)	(763,728)	(471,873)	61.8
Gross profit	$ 12,688,960	$ 8,919,538	$ 3,769,422	42.3
Gross profit margin	41%	36%		

	Three months ended September 30,			
	2021	2020	$ Change	% Change
Adjusted EBITDA:				
Net income	$ 1,696,023	$ 289,360	$ 1,406,663	486.1
Provision for incomes taxes	936,229	-	936,229	
Amortization of debt costs	43,067	50,050	(6,983)	(14.0)
Other amortization and depreciation	684,356	593,267	91,089	15.4
Interest expense	1,190,550	901,286	289,264	32.1
Stock compensation	265,407	169,393	96,014	56.7
Product/infrastructure expenses	-	97,390	(97,390)	
Adjusted EBITDA	$ 4,815,632	$ 2,100,746	$ 2,714,886	129.2

Key performance metrics for the nine months ended September 30, 2021 and 2020 are as follows:

	Nine months ended September 30, 2021	Nine months ended September 30, 2020	$ Change	% Change
Gross Profit:				
Gross lease billings and fees	$ 119,498,306	$ 93,632,889	25,865,417	27.6
Lease merchandise sold	5,456,991	3,953,608	1,503,383	38.0
Gross billings	124,955,297	97,586,497	27,368,800	28.0
Provision for doubtful accounts	(30,622,139)	(23,643,556)	(6,978,583)	29.5
Net revenues	94,333,158	73,942,941	20,390,217	27.6
Cost of lease revenues, consisting of depreciation and impairment of lease merchandise	(56,001,355)	(46,982,002)	(9,019,353)	19.2
Cost of merchandise sold	(4,300,224)	(2,685,599)	(1,614,625)	60.1
Gross profit	$ 34,031,579	$ 24,275,340	9,756,239	40.2
Gross profit margin	36%	33%		

	Nine months ended September 30, 2021	Nine months ended September 30, 2020	$ Change	% Change
Adjusted EBITDA:				
Net income	$ 2,639,454	$ 78,983	$ 2,560,471	3,241.8
Provision for income taxes	1,914,473	-	1,914,473	
Amortization of debt costs	177,647	234,283	(56,636)	(24.2)
Other amortization and depreciation	2,008,405	1,655,406	352,999	21.3
Interest expense	3,677,367	2,979,800	697,567	23.4
Stock compensation	894,892	793,241	101,651	12.8
Product/infrastructure expenses	10,000	281,830	(271,830)	(96.5)
Warrants compensation – consulting agreement	-	139,480	(139,480)	
Gain on debt extinguishment	(1,931,825)	-	(1,931,825)	
Adjusted EBITDA	$ 9,390,413	$ 6,163,023	$ 3,227,390	52.4

Management believes that Gross Profit and Adjusted EBITDA provide relevant and useful information which is widely used by analysts, investors and competitors in our industry in assessing performance.

Adjusted EBITDA represents net income before interest, stock-based compensation, taxes, depreciation (other than depreciation of leased inventory), amortization, and one-time or non-recurring items. We believe that Adjusted EBITDA provides us with an understanding of one aspect of earnings before the impact of investing and financing charges and income taxes. Adjusted EBITDA may be useful to an investor in evaluating our operating performance and liquidity because this measure:

- is widely used by investors to measure a company's operating performance without regard to items excluded from the calculation of such measure, which can vary substantially from company to company;
- is a financial measurement that is used by rating agencies, lenders and other parties to evaluate our credit worthiness; and
- is used by our management for various purposes, including as a measure of performance and as a basis for strategic planning and forecasting.

Adjusted EBITDA is a supplemental measure of FlexShopper's performance that is neither required by, nor presented in accordance with, GAAP. Adjusted EBITDA should not be considered as a substitute for GAAP metrics such as operating income/ (loss), net income or any other performance measures derived in accordance with GAAP.

Results of Operations

Three Months Ended September 30, 2021 Compared to Three Months Ended September 30, 2020

The following table details operating results for the three months ended September 30, 2021 and 2020:

	2021	2020	$ Change	% Change
Gross lease billings and fees	$ 40,952,142	$ 31,470,706	$ 9,481,436	30.1
Provision for doubtful accounts	$ (11,817,433)	$ (8,079,358)	$ (3,738,075)	46.3
Net lease billing and fees	$ 29,134,709	$ 23,391,348	$ 5,743,361	24.6
Lease merchandise sold	1,726,226	1,178,716	547,510	46.4
Total revenues	30,860,935	24,570,064	6,290,871	25.6
Cost of lease revenue and merchandise sold	(18,171,975)	(15,650,526)	(2,521,449)	16.1
Marketing	(1,824,402)	(1,650,717)	(173,685)	10.5
Salaries and benefits	(2,672,864)	(2,499,235)	(173,629)	6.9
Other operating expenses	(4,325,825)	(3,528,890)	(796,935)	22.6
Operating income	3,865,869	1,240,696	2,625,173	211.6
Interest expense	(1,233,617)	(951,336)	(282,281)	29.7
Provision for income taxes	(936,229)	-	(936,229)	
Net income	$ 1,696,023	289,360	$ 1,406,663	486.1

FlexShopper originated 30,407 gross leases less same day modifications and cancellations with an average origination value of $522 for the three months ended September 30, 2021 compared to 47,317 gross leases less same day modifications and cancellations with an average origination value of $480 for the comparable period last year. Total lease revenues for the three months ended September 30, 2021 were $29,134,709 compared to $23,391,348 for the three months ended September 30, 2020, representing an increase of $5,743,361 or 24.6%. Government stimulus programs had an impact on our customers. As a result of enhanced income, the demand for financing products was reduced. However, continued growth in repeat customers as a percentage of total leases originated, coupled with a higher average origination lease value and the growth in the overall size of the current lease portfolio is primary responsible for the increase in lease revenues.

Cost of lease revenue and merchandise sold for the three months ended September 30, 2021 was $18,171,975 compared to $15,650,526 for the three months ended September 30, 2020, representing an increase of $2,521,449 or 16.1%. Cost of lease revenue and merchandise sold for the three months ended September 30, 2021 is comprised of depreciation expense and impairment of lease merchandise of $16,936,374 and the net book value of merchandise sold of $1,235,601. Cost of lease revenue and merchandise sold for the three months ended September 30, 2020 is comprised of depreciation expense and impairment on lease merchandise of $14,886,798 and the net book value of merchandise sold of $763,728. As the Company’s lease portfolio and revenues increase, the depreciation and related costs associated with the larger portfolio also increase. Asset level performance within the portfolio, as well as, the mix of early paid off leases, will alter the average depreciable term of the leases within the portfolio and result in increases or decreases in cost of lease revenue and merchandise sold relative to lease revenue.

Marketing expenses in the three months ended September 30, 2021 were $1,824,402 compared to $1,650,717 in the three months ended September 30, 2020, an increase of $173,685, or 10.5%. The Company’s marketing expenditures are primarily related to increasing new lease consumers to order to grow the lease portfolio. The primary source of new consumers is through digital marketing channels directing potential consumers to FlexShopper.com. The focus on digital marketing allows the Company to have enhanced reporting on the effectiveness of marketing spending to ensure that it is acquiring customers at its targeted acquisition cost. A smaller portion of marketing expense is related to commissions related to retail partnerships as well as remarketing efforts to drive repeat consumer activity.

Salaries and benefits in the three months ended September 30, 2021 were $2,672,864 compared to $2,499,235 in the three months ended September 30, 2020, an increase of $173,629 or 6.9%. Generally, the salary and benefits expense should directionally move with the change in lease originations and the overall size of the lease portfolio albeit at a slower rate. During the second quarter of 2021, there were some management positions filled in operational roles to increase efficiencies in the call center and other operational departments. The company also expanded its sales team to support the growth with the retail partners.

Other operating expenses for the three months ended September 30, 2021 and 2020 included the following:

	2021	2020
Amortization and depreciation	$ 708,762	$ 593,267
Computer and internet expenses	938,862	465,561
Legal and professional fees	828,789	433,113
Merchant bank fees	737,254	464,295
Customer verification expenses	165,297	826,351
Stock compensation expense	265,407	169,393
Insurance expense	177,511	111,219
Office and telephone expense	242,733	113,789
Rent expense	167,804	166,372
Other	93,406	185,530
Total	$ 4,325,825	$ 3,528,890

Computer and internet expenses in the three months ended September 30, 2021 were $938,862 compared to $465,561 in the three months ended September 30, 2020, representing an increase of $473,301 or 101.7%. A significant portion of computer and internet expense is related to scaling both the consumer facing website and the Company's back end billing and collection systems. As we continue to expand our business, the back-office systems will need to scale also but at a much lower rate. In this quarter, there were some additional costs related to the continued optimization of new operational processes.

Legal and professional fees expenses in the three months ended September 30, 2021 were $828,789 compared to $433,113 in the three months ended September 30, 2020, representing an increase of $395,676 or 91.4%. During the second quarter of 2021, the Company onboarded two off-shore servicing and collections options to improve flexibility around seasonal call center traffic and improve operational metrics. In addition, the expense recorded for warrants granted as part of the consulting agreement with XLR8 Capital Partner increased in the three months period ended September 30, 2021 as the weighted average valuation per warrant was $1.47 in the three months ended September 30, 2021 compared to $0.99 per warrant for the same period in 2020.

Merchant bank fees expenses in the three months ended September 30, 2021 were $737,254 compared to $464,295 in the three months ended September 30, 2020, representing an increase of $272,959 or 58.8%. Merchant bank fee expense represents the ACH and card processing fees related to billing consumers and therefore an increase in revenue is the main driver for the increase in merchant bank fees.

Customer verification expenses in the three months ended September 30, 2021 were $165,297 compared to $826,351 in the three months ended September 30, 2020, representing a decrease of $661,054 or 80%. Customer verification expense is primarily the cost of data directly used for underwriting new lease applicants. As a result of a change in the estimate made during the current quarter regarding the portion of data costs incurred that are not directly used in underwriting decisions and that are probable of providing futureeconomic benefit, the Company capitalized $461,380 of data costs in the three months period ended September 30, 2021. Also, the reduction in the volume of leases for this quarter contributed to the decrease of customer verification expenses. The underwriting and data science team continues to optimize the costs related to underwriting lease applications.

Nine Months Ended September 30, 2021 Compared to Nine Months Ended September 30, 2020

The following table details operating results for the nine months ended September 30, 2021 and 2020:

	2021	2020	$ Change	% Change
Gross lease billings and fees	$ 119,498,306	$ 93,632,889	$ 25,865,417	27.6
Provision for doubtful accounts	$ (30,622,139)	$ (23,643,556)	$ (6,978,583)	29.5
Net lease billing and fees	$ 88,876,167	$ 69,989,333	$ 18,886,834	27.0
Lease merchandise sold	5,456,991	3,953,608	1,503,383	38.0
Total revenues	94,333,158	73,942,941	20,390,217	27.6
Cost of lease revenue and merchandise sold	(60,301,579)	(49,667,601)	(10,633,978)	21.4
Marketing	(5,571,237)	(3,619,911)	(1,951,326)	53.9
Salaries and benefits	(8,329,188)	(7,324,620)	(1,004,568)	13.7
Other operating expenses	(13,654,038)	(10,037,743)	(3,616,295)	36.0
Operating income	6,477,116	3,293,066	3,184,050	96.7
Gain on extinguishment of debt	1,931,825	-	1,931,825	
Interest expense	(3,855,014)	(3,214,083)	(640,931)	19.9
Provision for incomes taxes	(1,914,473)	-	(1,914,473)	
Net income	$ 2,639,454	$ 78,983	$ 2,560,471	3,241.8

FlexShopper originated 108,146 gross leases less same day modifications and cancellations with an average origination value of $523 for the nine months ended September 30, 2021 compared to 117,294 gross leases less same day modifications and cancellations with an average origination value of $470 for the comparable period last year. Total lease revenues for the nine months ended September 30, 2021 were $88,876,167 compared to $69,989,333 for the nine months ended September 30, 2020, representing an increase of $18,886,834 or 27.0%. Government stimulus programs had an impact on our customers. As a result of enhanced income, the demand for financing products was reduced. However, continue growth in repeat customers as a percentage of total leases originated, coupled with a higher average origination lease value and the growth in the overall size of the current lease portfolio is primary responsible for the increase in lease revenues.

Cost of lease revenue and merchandise sold for the nine months ended September 30, 2021 was $60,301,579 compared to $49,667,601 for the nine months ended September 30, 2020, representing an increase of $10,633,978 or 21.4%. Cost of lease revenue and merchandise sold for the nine months ended September 30, 2021 is comprised of depreciation expense and impairment of lease merchandise of $56,001,355 and the net book value of merchandise sold of $4,300,224. Cost of lease revenue and merchandise sold for the nine months ended September 30, 2020 is comprised of depreciation expense and impairment of lease merchandise of $46,982,002 and the net book value of merchandise sold of $2,685,599. As the Company's lease portfolio and revenues increase, the depreciation and related costs associated with the larger portfolio also increase. Asset level performance within the portfolio, as well as, the mix of early paid off leases, will alter the average depreciable term of the leases within the portfolio and result in increases or decreases in cost of lease revenue and merchandise sold relative to lease revenue.

Marketing expenses in the nine months ended September 30, 2021 were $5,571,237 compared to $3,619,911 in the nine months ended September 30, 2020, an increase of $1,951,326 or 53.9%. The Company marketing expenditures are primarily related to increasing new lease consumers to order to grow the lease portfolio. The primary source of new consumers is through digital marketing channels directing potential consumers to FlexShopper.com. The focus on digital marketing allows the Company to have enhanced reporting on the efficiency of marketing spending to ensure that it is acquiring customers at its targeted acquisition cost. A smaller portion of marketing expense is related to commissions related to retail partnerships as well as remarketing efforts to drive repeat consumer activity.

Salaries and benefits in the nine months ended September 30, 2021 were $8,329,188 compared to $7,324,620 in the nine months ended September 30, 2020, an increase of $1,004,568 or 13.7%. Generally, the salary and benefits expense should directionally move with the change in lease originations and the overall size of the lease portfolio albeit at a slower rate. During the second quarter of 2021, there were some management positions filled in operational roles to increase efficiencies in the call center and other operational departments. The company also expanded its sales team to support the growth with the retail partners.

Other operating expenses for the nine months ended September 30,2021 and 2020 included the following:

	2021	2020
Amortization and depreciation	$ 2,032,811	$ 1,655,406
Computer and internet expenses	2,369,048	1,313,134
Legal and professional fees	2,227,119	1,463,191
Merchant bank fees	2,022,171	1,407,008
Customer verification expenses	1,833,678	1,744,862
Stock compensation expense	894,892	793,241
Insurance expense	434,914	330,196
Office and telephone expense	657,767	276,248
Rent expense	491,911	519,400
Other	689,727	535,057
Total	$ 13,654,038	$ 10,037,743

Amortization and depreciation expenses in the nine months ended September 30, 2021 were $2,032,811 compared to $1,655,406 in the nine months ended September 30, 2020, represent and increase of $377,405 or 22.8%. The increase is related to the purchases of computer hardware, software and licenses to grow the business and improve operational processes.

Computer and internet expenses in the nine months ended September 30, 2021 were $2,369,048 compared to $1,313,134 in the nine months ended September 30, 2020, representing an increase of $1,055,914 or 80.4%. A significant portion of computer and internet expense is related to scaling both the consumer facing website and the Company's back end billing and collection systems. As the lease portfolio grows, the back-office systems will need to scale also but at a much lower rate. In 2021, there were some additional costs related to the continued optimization of new operational processes.

Legal and professional fees expenses in the nine months ended September 30, 2021 were $2,227,119 compared to $1,463,191 in the nine months ended September 30, 2020, representing an increase of $763,928 or 52.2%. During the second quarter of 2021, the Company onboarded two off-shore servicing and collections options to improve flexibility around seasonal call center traffic and improve operational metrics. Also, the expense recorded for warrants granted as part of the consulting agreement with XLR8 Capital Partner increased in the nine month period ended September 30, 2021 as the weighted average valuation per warrant was $1.63 in the nine months ended September 30, 2021 compared to $0.72 per warrant for the same period in 2020.

Merchant bank fees expenses in the nine months ended September 30, 2021 were $2,022,171 compared to $1,407,008 in the nine months ended September 30, 2020, representing an increase of $615,163 or 43.7%. Merchant bank fee expense represents the ACH and card processing fees related to billing consumers and therefore an increase in revenue is the main driver for the increase in merchant bank fees.

Customer verification expenses in the nine months ended September 30, 2021 were $1,833,678 compared to $1,744,862 in the nine months ended September 30, 2020, representing an increase of 88,816 or 5.1%. Customer verification expense is primarily the cost of data directly used for underwriting new lease applicants. The number of new lease applicants is directly correlated with changes in marketing expense. The underwriting and data science team continues to optimize the costs related to underwriting lease applications. As a result of a change in the estimate made during the current quarter regarding the portion of data costs incurred that are not directly used in underwriting decisions and that are probable of providing future economic benefit, the Company capitalized $461,380 of data costs in the three months period ended September 30, 2021. The capitalization made of a portion of data cost incurred,moderated the increase in customer verification expense.

Office and telephones expenses in the nine months ended September 30, 2021 were $657,767 compared to $276,248 in the nine months ended September 30, 2020, representing an increase of $381,519 or 138.1%. The improvements to operations includes a revamping of our telephone system which produce a higher volume of calls and more efficiencies in handling inbound and outbound calls.

Operations

We promote our FlexShopper products and services across all sales channels through strategic partnerships, direct response marketing, and affiliate and internet marketing, all of which are designed to increase our lease transactions. Our advertisements emphasize such features as instant spending limits and affordable weekly payments. We believe that as the FlexShopper name gains familiarity and national recognition through our advertising efforts, we will continue to educate our customers and potential customers about the lease-to-own payment alternative as well as solidify our reputation as a leading provider of high-quality branded merchandise and services.

For each of our sales channels, FlexShopper has a marketing strategy that includes the following:

Online LTO Marketplace	Patent pending LTO Payment Method	In-store LTO technology platform
Search engine optimization; pay-per click	Direct to retailers/e-retailers	Direct to retailers/e-retailers
Online affiliate networks	Partnerships with payment aggregators	Consultants & strategic relationships
Direct response television campaigns	Consultants & strategic relationships	
Direct mail		

The Company believes it has a competitive advantage over competitors in the LTO industry by providing all three channels as a bundled package to retailers and e-retailers. Management is anticipating a rapid development of the FlexShopper business as we are able to penetrate each of our sales channels. To support our anticipated growth, FlexShopper will need the availability of substantial capital resources. See the section captioned "Liquidity and Capital Resources" below.

Liquidity and Capital Resources

As of September 30, 2021, the Company had cash of $3,147,926 compared to $6,750,019 at the same date in 2020. As of December 31, 2020, the Company had cash of $8,541,232. The decrease in cash from December 31, 2020, was primarily due to the repayments on the Credit Agreement and lease merchandise acquired.

As of September 30, 2021, the Company had accounts receivable of $44,902,037 offset by an allowance for doubtful accounts of $25,250,787, resulting in net accounts receivable of $19,651,250. Accounts receivable are principally comprised of past due lease payments owed to the Company. An allowance for doubtful accounts is estimated based upon historical collection and delinquency percentages.

Credit Agreement

On March 6, 2015, FlexShopper, through a wholly-owned subsidiary (the "Borrower"), entered into a credit agreement (as amended from time to time and including the Fee Letter (as defined therein), the "Credit Agreement") with Wells Fargo Bank, National Association as paying agent, various lenders from time to time party thereto and WE 2014-1, LLC, an affiliate of Waterfall Asset Management, LLC, as administrative agent and lender (the "Lender"). The Borrower is permitted to borrow funds under the Credit Agreement based on FlexShopper's recently collected payments and the Amortized Order Value of its Eligible Leases (as such terms are defined in the Credit Agreement) less certain deductions described in the Credit Agreement. Under the terms of the Credit Agreement, subject to the satisfaction of certain conditions, the Borrower may currently borrow up to $47,500,000 from the Lender until the Commitment Termination Date and must repay all borrowed amounts one year thereafter, on the date that is 12 months following the Commitment Termination Date (unless such amounts become due or payable on an earlier date pursuant to the terms of the Credit Agreement). On January 29, 2021, pursuant to an amendment to the Credit Agreement, the Commitment Termination Date was extended to April 1, 2024, the Lender was granted a security interest in certain leases as collateral under the Credit Agreement and the interest rate charged on amounts borrowed was set at LIBOR plus 11% per annum. On February 26, 2021 an amendment to the Credit Agreement was signed to extend the deadline to receive approval from a third party to enter into a Backup Servicer Agreement.

The Credit Agreement provides that FlexShopper may not incur additional indebtedness (other than expressly permitted indebtedness) without the permission of the Lender and also prohibits dividends on common stock. Additionally, the Credit Agreement includes covenants requiring FlexShopper to maintain a minimum amount of Equity Book Value, maintain a minimum amount of cash and liquidity and maintain a certain ratio of Consolidated Total Debt to Equity Book Value (each capitalized term, as defined in the Credit Agreement). Upon a Permitted Change of Control (as defined in the Credit Agreement), FlexShopper may refinance the debt under the Credit Agreement, subject to the payment of an early termination fee.

In addition, the Lender and its affiliates have a right of first refusal on certain FlexShopper transactions involving leases or other financial products. The Credit Agreement includes customary events of default, including, among others, failures to make payment of principal and interest, breaches or defaults under the terms of the Credit Agreement and related agreements entered into with the Lender, breaches of representations, warranties or certifications made by or on behalf of the Borrower in the Credit Agreement and related documents (including certain financial and expense covenants), deficiencies in the borrowing base, certain judgments against the Borrower and bankruptcy events.

As of September 30, 2021, the Company had $165,417 available under the Credit Agreement.

Financing Activity

On January 25, 2019, FlexShopper, LLC (the “Borrower”) entered into a subordinated debt financing letter agreement with 122 Partners, LLC, as lender, pursuant to which FlexShopper, LLC issued a subordinated promissory note to 122 Partners, LLC (the “January Note”) in the principal amount of $1,000,000. H. Russell Heiser, Jr., FlexShopper’s Chief Financial Officer, is a member of 122 Partners, LLC. Payment of the principal amount and accrued interest under the January Note was due and payable by the borrower on April 30, 2020 and the borrower can prepay principal and interest at any time without penalty. Amounts outstanding under the January Note bear interest at a rate equal to 5.00% per annum in excess of the non-default rate of interest from time to time in effect under the Credit Agreement. Obligations under the January Note are subordinated to obligations under the Credit Agreement. The January Note is subject to customary representations and warranties and events of default. If an event of default occurs and is continuing, the Borrower may be required to repay all amounts outstanding under the January Note. Obligations under the January Note are secured by substantially all of the Borrower’s assets, subject to the senior rights of the lenders under the Credit Agreement. On April 30, 2020, pursuant to an amendment to the subordinated debt financing letter agreement, the Borrower and 122 Partners, LLC agreed to extend the maturity date of the January Note to April 30, 2021. On March 22, 2021, FlexShopper, LLC executed an amendment to the 122 Partners Note such that the maturity date of the January Note was extended to April 1, 2022. No other changes were made to such Note. As of September 30, 2021, $1,011,615 of principal and accrued and unpaid interest was outstanding on the January Note.

On February 19, 2019, the Borrower entered into a letter agreement with NRNS Capital Holdings LLC (“NRNS”), the manager of which is the Chairman of the Company’s Board of Directors, pursuant to which the Borrower issued a subordinated promissory note to NRNS (the “February Note”) in the principal amount of $2,000,000. Payment of principal and accrued interest under the February Note is due and payable by the Borrower on June 30, 2021 and FlexShopper, LLC can prepay principal and interest at any time without penalty. Amounts outstanding under the February Note bear interest at a rate equal to 5.00% per annum in excess of the non-default rate of interest from time to time in effect under the Credit Agreement. Obligations under the February Note are subordinated to obligations under the Credit Agreement. The February Note is subject to customary representations and warranties and events of default. If an event of default occurs and is continuing, the Borrower may be required to repay all amounts outstanding under the February Note. Obligations under the February Note are secured by substantially all of the Borrower’s assets, subject to rights of the lenders under the Credit Agreement. On March 22, 2021, FlexShopper, LLC executed an amendment to the NRNS and February Note such that the maturity date was extended to April 1, 2022. No other changes were made to such Note. As of September 30, 2021, $2,023,243 of principal and accrued and unpaid interest was outstanding on the February Note.

The Company is pursuing a refinancing of both related party subordinated notes with a non-related party note with a term that is similar to the Credit Agreement.

The Company applied for and received a loan (the “Loan”) on May 4, 2020, from Customers Bank (the “PPP Lender”) in the principal amount of $1,914,100, pursuant to the Paycheck Protection Program (the “PPP”) under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), which was enacted March 27, 2020, and administered through the U.S. Small Business Administration (the “SBA”).

The Loan was evidenced by a promissory note (the “Note”), dated April 30, 2020, issued by the Borrower to the PPP Lender. The Note matured on April 30, 2022 and bore interest at the rate of 1.00% per annum, payable monthly commencing the later of on November 30, 2020 or the SBA review of the forgiveness application. The Note might be prepaid by the Borrower at any time prior to maturity with no prepayment penalty. Proceeds from the Loan were available to the Borrower to fund designated expenses, including certain payroll costs, group health care benefits and other permitted expenses, in accordance with the PPP. Under the terms of the PPP, up to the entire sum of the principal amount and accrued interest might be forgiven to the extent the Loan proceeds were used for qualifying expenses as described in the CARES Act and applicable implementing guidance issued by the U.S. Small Business Administration under the PPP.

On June 21, 2021, we were notified that effective April 7, 2021, the U.S. Small Business Administration confirmed the waiver of FlexShopper’s repayment of a $1,914,000 Paycheck Protection Program promissory note issued to the Company on May 4, 2020.

As a result of the PPP promissory note forgiveness, the Company recognized a gain from the extinguishment of the loan, including accrued interest, of $1,931,825.

Cash Flow Summary

Cash Flows from Operating Activities

Net cash provided by operating activities was $1,159,828 for the nine months ended September 30, 2021 primarily due to the add back of depreciation and impairment on leased merchandise and provision for doubtful accounts partially offset by purchases of leased merchandise, the change in accounts receivable and accounts payable and the gain on the extinguishment of debt

Net cash provided by operating activities was $4,555,130 for the nine months ended September 30, 2020 primarily due to the add back of depreciation and impairment on leased merchandise and provision for doubtful accounts partially offset by the purchases of leased merchandise and the change in accounts receivable and accounts payable.

Cash Flows from Investing Activities

For the nine months ended September 30, 2021, net cash used in investing activities was $3,459,424 comprised of $982,298 for the purchase of property and equipment and $2,477,126 for capitalized software and data costs.

For the nine months ended September 30, 2020, net cash used in investing activities was $2,099,654 comprised of $294,796 for the purchase of property and equipment and $1,804,858 for capitalized software costs.

Cash Flows from Financing Activities

Net cash used in financing activities was $3,093,710 for the nine months ended September 30, 2021 due to loan repayments on the Credit Agreement of $6,575,000 partially offset by $4,000,000 of funds drawn on the Credit Agreement.

Net cash used in financing activities was $2,573,929 for the nine months ended September 30, 2020 due to loan repayments on the Credit Agreement of $7,023,250 partially offset by $2,412,000 of funds drawn on the Credit Agreement and by $1,914,100 of proceeds received under the Paycheck Protection Program.

Capital Resources

To date, funds derived from the sale of FlexShopper's common stock, warrants, Series 1 Convertible Preferred Stock and Series 2 Convertible Preferred Stock and the Company's ability to borrow funds against the lease portfolio have provided the liquidity and capital resources necessary to fund its operations.

Management believes that liquidity needs for servicing of obligations as they come due in the normal course of business as well as for future growth through a period of at least 12 months from the date of issuance of this 10-Q can be met by cash flow from operations generated by the existing portfolio and/or additional borrowings against the Credit Agreement (see Note 7).

Financial Impact of COVID-19 Pandemic

The COVID-19 Pandemic and the related stimulus programs had an impact on the Company. The immediate impact early in the second quarter of 2020 was a transition to a significant percentage of the Company's employees working remotely. Fortunately, our South Florida location requires a thorough Hurricane Impact plan enabling all our employees to work remotely, if necessary. All employees, via specially configured laptops, are able to access the same data and have the same functionality as if they were in the office. Throughout the pandemic, FlexShopper rotated select groups of employees into the office in order to adjust to the other business impacts on the business. As of the end of September 2021, approximately 30% of our employees are working remotely.

The other impacts of the business can be broken into three categories. The first is the decrease in the availability of our lease financing product. Pre-COVID-19, approximately 40% of new customers were obtained through brick and mortar or B2B retailers. The pandemic-related closing and limited operations of retailers, as well as shelter in place orders, limited our new customers from this channel substantially over the second quarter and third quarter of 2020. Through the first half of the second quarter of 2021 there was diminished demand from our B2B retailers resulting from pandemic related issues. Moreover, since the crisis began, a number of our brick and mortar rollouts and pilots have been delayed or put on hold as our retailer partners attempt to return to a more stable operational environment.

The second impact was a Company reaction in the second quarter of 2020 to the uniqueness of the pandemic. Not knowing what the potential impact to consumer payment patterns would be, the Company significantly tightened approval rates. It was not until the end of the third quarter of 2020, that approval rates returned to the pre-pandemic levels. This decreased approval rate, both online and in third party stores, coupled with the retailer closures mentioned above, significantly reduced new lease originations.

The third impact was on consumer behavior and payment patterns. The combination of stimulus measures was especially impactful to our typical customer. As a result of enhanced income, the demand for our products was reduced, the likelihood of consumers choosing early payoff options increased substantially and, on a positive note, the asset level performance of our full-term customer, relative to their expected performance, increased substantially.

As of the end of September 2021, we still are experiencing the impact of the continued stimulus in our consumers' behavior. Payment patterns are still skewing to a greater number of early payoffs versus pre-pandemic levels and reduced demand is evident in our digital marketing channels through the conversion rate of new applicants. However, the enhanced payment performance, versus our expected performance, is beginning to wane which would seem to be a potential initial indicator of a return to the Pre-COVID-19 environment.

Finally, throughout the pandemic, the Company has continued to grow the lease portfolio despite the items mentioned previously. At no point, have there been liquidity concerns or covenant complications. In fact, our credit facility was upsized, our product breadth increased and our covenants reduced in the first half of 2021.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports 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 the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-15(e). In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level at September 30, 2021.

There were no changes in the Company's internal controls over financial reporting during the most recently completed fiscal quarter that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are not currently a party to any pending legal proceedings that we believe will have a material adverse effect on our business, financial condition or results of operations. We may, however, be subject to various claims and legal actions arising in the ordinary course of business from time to time.

ITEM 1A. RISK FACTORS.

In addition to the other information set forth in this report, you should carefully consider the factors discussed under Part I, Item 1A, “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2020. These factors could materially adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report. There have been no material changes to such risk factors.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

As of September 30, 2021, the Company had issued warrants exercisable for 1,200,000 shares of its common stock to XLR8 Capital Partners LLC (“XLR8”) pursuant to that certain Consulting Agreement, dated February 19, 2019, by and between the Company and XLR8. Of these warrants, warrants for 80,000 shares of common stock were issued during the quarter ended September 30, 2021. The 1,200,000 warrants are exercisable immediately at a weighted average exercise price of $2.17 per share and an exercise price range from $1.25 to $3.27 and will remain exercisable until June 30, 2023. In connection with the issuance of the warrants, the Company relied on the exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended, for transactions not involving a public offering.

The following table details the warrants granted for the three months ended September 30, 2021:

Grant Date	Warrants Granted
July 31, 2021	40,000
August 31, 2021	40,000
	80,000

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS:

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of FlexShopper, Inc. (previously filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017 and incorporated herein by reference).
3.2	Amended and Restated Bylaws (previously filed as Exhibit 3.2 to the Company's Current Report on Form 10-K filed on March 11, 2020 and incorporated herein by reference).
3.3	Certificate of Amendment to the Certificate of Incorporation of the Company (previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on September 21, 2018 and incorporated herein by reference).
3.4	Certificate of Amendment to the Certificate of Incorporation of the Company (previously filed as Exhibit 3.4 to the Company's Quarterly Report on Form 10-Q filed on November 5, 2018 and incorporated herein by reference).
31.1	Rule 13a-14(a) Certification - Principal Executive Officer*
31.2	Rule 13a-14(a) Certification - Principal Financial Officer*
32.1	Section 1350 Certification - Principal Executive Officer*
32.2	Section 1350 Certification - Principal Financial Officer*
101.INS	Inline XBRL Instance Document.*
101.SCH	Inline XBRL Taxonomy Extension Schema Document.*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).*

* Filed herewith.

SIGNATURES

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

	FLEXSHOPPER, INC.
Date: November 15, 2021	By: /s/ Richard House Jr. Richard House Jr. Chief Executive Officer (Principal Executive Officer)
Date: November 15, 2021	By: /s/ H. Russell Heiser H. Russell Heiser Chief Financial Officer (Principal Financial Officer)

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Rich House, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FlexShopper, 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 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 the 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 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 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 registrant's internal control over financial reporting.

Date: November 15, 2021

By: /s/ Richard House Jr.
Richard House Jr.
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Russ Heiser, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FlexShopper, 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 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 the 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 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 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 registrant's internal control over financial reporting.

Date: November 15, 2021	By:	/s/ H. Russell Heiser
		H. Russell Heiser Chief Financial Officer (Principal Financial Officer)

Exhibit 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Quarterly Report of FlexShopper, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard House, Principal Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act, 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.

Date: November 15, 2021

By: /s/ Richard House Jr.
Richard House Jr.
Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Quarterly Report of FlexShopper, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Russ Heiser, Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act, 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.

Date: November 15, 2021	By:	/s/ H. Russell Heiser
		H. Russell Heiser Chief Financial Officer (Principal Financial Officer)