

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, 2019

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
Warrants, each to purchase one share of Common Stock	FPAYW	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   
Accelerated filer

Non-accelerated filer   
Smaller reporting company   
Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of November 4, 2019, the issuer had a total of 17,666,193 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 failure to protect the integrity and security of customer and employee information; 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, 2018.

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, 2019 (unaudited)	December 31, 2018
ASSETS		
CURRENT ASSETS:		
Cash	\$ 3,172,362	\$ 6,141,210
Accounts receivable, net	7,976,580	6,375,963
Prepaid expenses	609,605	317,160
Lease merchandise, net	24,341,616	32,364,697
Total current assets	<u>36,100,163</u>	<u>45,199,030</u>
PROPERTY AND EQUIPMENT, net	5,271,812	3,336,664
OTHER ASSETS, net	86,980	90,621
	<u>\$ 41,458,955</u>	<u>\$ 48,626,315</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of loan payable under credit agreement to beneficial shareholder net of \$0 at 2019 and \$167,483 at 2018 of unamortized issuance costs	\$ -	\$ 14,252,717
Accounts payable	2,660,561	8,317,216
Accrued payroll and related taxes	232,086	393,095
Promissory notes to related parties net of \$9,333 at 2019 and \$0 at 2018 of unamortized issuance costs, including accrued interest	1,062,810	1,814,771
Accrued expenses	886,028	1,335,505
Lease liability - current portion	121,858	-
Total current liabilities	<u>4,963,343</u>	<u>26,113,304</u>
Loan payable under credit agreement to beneficial shareholder net of \$367,346 at 2019 and \$164,752 at 2018 of unamortized issuance costs and current portion	20,233,281	14,020,335
Promissory notes to related parties net of \$28,966 at 2019 and \$0 at 2018 of unamortized issuance costs and current portion	3,721,034	-
Lease liabilities less current portion	1,913,171	-
Total liabilities	<u>30,830,829</u>	<u>40,133,639</u>
STOCKHOLDERS' EQUITY		
Series 1 Convertible Preferred Stock, \$0.001 par value - authorized 250,000 shares, issued and outstanding 171,191 shares at 2019 and 239,405 shares at 2018 at \$5.00 stated value	855,955	1,197,025
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 17,666,193 shares at 2019 and 17,579,870 shares at 2018	1,767	1,758
Additional paid in capital	34,969,420	34,074,488
Accumulated deficit	(47,151,016)	(48,732,595)
Total stockholders' equity	<u>10,628,126</u>	<u>8,492,676</u>
	<u>\$ 41,458,955</u>	<u>\$ 48,626,315</u>

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,	
	2019	2018	2019	2018
<b>Revenues:</b>				
Lease revenues and fees, net	\$ 22,267,261	\$ 14,609,409	\$ 63,953,196	\$ 41,875,977
Lease merchandise sold	665,074	490,208	2,374,876	1,592,556
<b>Total revenues</b>	<u>22,932,335</u>	<u>15,099,617</u>	<u>66,328,072</u>	<u>43,468,533</u>
<b>Costs and expenses:</b>				
Cost of lease revenues, consisting of depreciation and impairment of lease merchandise	14,248,969	10,289,709	43,787,216	29,684,867
Cost of lease merchandise sold	457,399	349,209	1,521,244	1,007,677
Marketing	868,452	1,596,322	2,031,227	4,025,509
Salaries and benefits	2,189,629	2,186,835	5,984,797	6,397,999
Operating expenses	2,718,110	2,206,496	8,156,238	6,163,680
<b>Total costs and expenses</b>	<u>20,482,559</u>	<u>16,628,571</u>	<u>61,480,722</u>	<u>47,279,732</u>
<b>Operating income/(loss)</b>	2,449,776	(1,528,954)	4,847,350	(3,811,199)
Loss on extinguishment of debt	-	126,622	-	126,622
Interest expense including amortization of debt issuance costs	1,061,794	1,061,827	3,265,771	3,040,832
<b>Net income/(loss)</b>	1,387,982	(2,717,403)	1,581,579	(6,978,653)
Dividends on Series 2 Convertible Preferred Shares	609,717	609,168	1,828,167	1,817,672
<b>Net income/(loss) attributable to common shareholders</b>	<u>\$ 778,265</u>	<u>\$ (3,326,571)</u>	<u>\$ (246,588)</u>	<u>\$ (8,796,325)</u>
<b>Basic and diluted (loss) per common share:</b>				
Basic	\$ 0.04	\$ (0.56)	\$ (0.01)	\$ (1.59)
Diluted	<u>\$ 0.04</u>	<u>\$ (0.56)</u>	<u>\$ (0.01)</u>	<u>\$ (1.59)</u>
<b>WEIGHTED AVERAGE COMMON SHARES:</b>				
Basic	17,666,193	5,950,161	17,661,134	5,539,815
Diluted	<u>19,798,386</u>	<u>5,950,161</u>	<u>17,661,134</u>	<u>5,539,815</u>

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

**FLEXSHOPPER, INC.**  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**For the nine months ended September 30, 2019 and 2018**  
**(unaudited)**

	Series 1 Convertible Preferred Stock		Series 2 Convertible Preferred Stock		Common Stock		Additional Paid in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, January 1, 2019	239,405	\$ 1,197,025	21,952	\$ 21,952,000	17,579,870	\$ 1,758	\$ 34,074,488	\$ (48,732,595)	\$ 8,492,676
Provision for compensation expense related to stock options	-	-	-	-	-	-	328,772	-	328,772
Refund of costs related to equity raise	-	-	-	-	-	-	23,147	-	23,147
Conversion of preferred stock to common stock	(68,214)	(341,070)	-	-	86,323	9	341,061	-	-
Issuance of warrants in connection with consulting agreement	-	-	-	-	-	-	43,200	-	43,200
Net income	-	-	-	-	-	-	-	193,597	193,597
Balance, June 30, 2019	171,191	\$ 855,955	21,952	\$ 21,952,000	17,666,193	\$ 1,767	\$ 34,810,668	\$ (48,538,998)	\$ 9,081,392
Provision for compensation expense related to stock options	-	-	-	-	-	-	117,133	-	117,133
Issuance of warrants in connection with consulting agreement	-	-	-	-	-	-	41,619	-	41,619
Net income	-	-	-	-	-	-	-	1,387,982	1,387,982
Balance, September 30, 2019	171,191	\$ 855,955	21,952	\$ 21,952,000	17,666,193	\$ 1,767	\$ 34,969,420	\$ (47,151,016)	\$ 10,628,126

	Series 1 Convertible Preferred Stock		Series 2 Convertible Preferred Stock		Common Stock		Additional Paid in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, January 1, 2018	239,405	\$ 1,197,025	21,952	\$ 21,952,000	5,294,501	\$ 529	\$ 22,445,691	\$ (39,271,333)	\$ 6,323,912
Provision for compensation expense related to stock options	-	-	-	-	-	-	72,481	-	72,481
Warrants issued in connection with amended credit agreement and subsequent issuance of common stock upon exercise of the warrants	-	-	-	-	175,000	18	523,232	-	523,250
Net loss	-	-	-	-	-	-	-	(4,261,250)	(4,261,250)
Balance, June 30, 2018	239,405	\$ 1,197,025	21,952	\$ 21,952,000	5,469,501	\$ 547	\$ 23,041,404	\$ (43,532,583)	\$ 2,658,393
Provision for compensation expense related to stock options	-	-	-	-	-	-	28,544	-	28,544
Issuance of shares and warrants in connection with equity raise	-	-	-	-	10,000,000	1,000	10,006,500	-	10,007,500
Offering costs related to equity raise	-	-	-	-	-	-	(1,022,810)	-	(1,022,810)
Conversion of debt and accrued interest to common shares	-	-	-	-	2,110,369	211	2,089,055	-	2,089,266
Net loss	-	-	-	-	-	-	-	(2,717,403)	(2,717,403)
Balance, September 30, 2018	239,405	\$ 1,197,025	21,952	\$ 21,952,000	17,579,870	\$ 1,758	\$ 34,142,693	\$ (46,249,986)	\$ 11,043,490

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, 2019 and 2018**  
**(unaudited)**

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income/(loss)	\$ 1,581,579	\$ (6,978,653)
Adjustments to reconcile net income/(loss) to net cash provided by (used in) operating activities:		
Depreciation and impairment of lease merchandise	43,787,216	29,684,866
Other depreciation and amortization	1,879,935	1,850,452
Compensation expense related to issuance of stock options and warrants	530,724	101,025
Provision for doubtful accounts	25,075,156	16,563,888
Loss on debt extinguishment	-	126,622
Changes in operating assets and liabilities:		
Accounts receivable	(26,675,773)	(17,120,096)
Prepaid expenses and other	(290,556)	141,126
Lease merchandise	(35,764,135)	(26,595,974)
Security deposits	1,334	2,025
Accounts payable	(5,656,655)	(1,560,609)
Accrued payroll and related taxes	(161,009)	(179,265)
Accrued expenses	(317,173)	128,766
Net cash provided by (used in) operating activities	<u>3,990,643</u>	<u>(3,835,827)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment, including capitalized software costs	(1,664,580)	(1,752,095)
Net cash used in investing activities	<u>(1,664,580)</u>	<u>(1,752,095)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payment under finance lease obligation	(1,243)	-
Refund of equity issuance related costs	23,147	-
Proceeds from exercise of warrants	-	1,750
Proceeds from public offering	-	10,007,500
Equity issuance related costs	-	(862,810)
Proceeds from promissory notes, net of fees	3,440,000	3,465,000
Repayment of promissory note	(500,000)	-
Proceeds from loan payable under credit agreement	2,523,828	5,185,000
Repayment of loan payable under credit agreement	(10,528,488)	(9,786,487)
Repayment of installment loan	(8,405)	(8,405)
Debt issuance related costs	(243,750)	(100,438)
Net cash (used in) provided by financing activities	<u>(5,294,911)</u>	<u>7,901,110</u>
<b>(DECREASE)/INCREASE IN CASH</b>	<b>(2,968,848)</b>	<b>2,313,188</b>
CASH, beginning of period	<u>6,141,210</u>	<u>4,968,915</u>
CASH, end of period	<u>\$ 3,172,362</u>	<u>\$ 7,282,103</u>
<b>Supplemental cash flow information:</b>		
Interest paid	\$ 2,700,709	\$ 2,104,110
<b>Non-cash financing activities:</b>		
Issuance of common stock and warrants to extinguishment debt and accrued interest	-	\$ 2,089,266
Accrued equity issuance costs	-	\$ 160,000
Warrants issued for debt issuance costs	-	\$ 523,250
Conversion of preferred stock to common stock	\$ 341,070	-

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

**FLEXSHOPPER, INC.**  
**Notes To Consolidated Financial Statements**  
**For the nine months ended September 30, 2019 and 2018**  
**(Unaudited)**

**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, 2018.

The consolidated balance sheet as of December 31, 2018 contained herein has been derived from audited financial statements.

**2. BUSINESS**

FlexShopper, Inc. (“FlexShopper” or 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, which in turns owns 100% of FlexShopper 1, LLC and FlexShopper 2, LLC. The Company is a holding corporation with no operations except for those conducted by FlexShopper, LLC. FlexShopper, LLC provides through e-commerce sites of durable goods to consumers, including customers of third-party retailers and e-tailers, on a lease-to-own (“LTO”) basis.

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 both funds against the lease portfolio and from promissory notes have provided the liquidity and capital resources necessary to fund its operations. Management believes that liquidity needs for future growth for at least the next 12 months can be met by cash flow from operations generated by the existing portfolio and/or additional borrowings against the Credit Agreement (see Note 7).

**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 monthly 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, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018
Accounts receivable	\$ 17,877,284	\$ 10,130,269
Allowance for doubtful accounts	(9,900,704)	(3,754,306)
Accounts receivable, net	<u>\$ 7,976,580</u>	<u>\$ 6,375,963</u>

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 with such charges being fully reserved for. Accounts receivable balances charged off against the allowance were \$9,838,873 and \$19,215,275 for the three and nine months ended September 30, 2019, respectively, and \$6,766,876 and \$14,209,066 for the three and nine months ended September 30, 2018, respectively.

	September 30, 2019	December 31, 2018
Beginning balance	\$ 3,754,306	\$ 2,139,765
Provision for write-offs	25,361,673	23,239,189
Accounts written off	(19,215,275)	(21,624,648)
Ending balance	<u>\$ 9,900,704</u>	<u>\$ 3,754,306</u>

**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, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018
Lease merchandise at cost	\$ 45,713,984	\$ 48,893,012
Accumulated depreciation	(18,931,951)	(14,338,295)
Impairment reserve	(2,440,417)	(2,190,020)
Lease merchandise, net	<u>\$ 24,341,616</u>	<u>\$ 32,364,697</u>

Lease merchandise at cost represents the undepreciated cost of rental merchandise at the time of purchase.

**Deferred Debt Issuance Costs** - Debt issuance costs incurred in conjunction with the Credit Agreement entered into on March 6, 2015, and subsequent amendments (see Note 7) 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 \$103,368 and \$208,640 for the three and nine months ended September 30, 2019, respectively, and \$167,689 and \$425,996 for the three and nine months ended September 30, 2018, respectively.

Debt issuance costs of \$35,000 incurred in conjunction with the subordinated Promissory Notes entered into on January 29, 2018 and January 30, 2018 (see Note 6) 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 \$0 and \$35,000 for the three and nine months ended September 30, 2018.

Debt issuance costs of \$60,000 incurred in conjunction with the subordinated Promissory Notes entered into on January 25, 2019 and February 19, 2019 (see Note 6) 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 \$8,138 and \$21,701 for the three and nine months ended September 30, 2019, 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.

**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 \$535,640 and \$1,584,666 for the three and nine months ended September 30, 2019, respectively, and \$730,554 and \$1,737,931 for the three and nine months ended September 30, 2018, respectively. Capitalized software amortization expense was \$513,149 and \$1,596,396 for the three and nine months ended September 30, 2019, respectively and \$468,289 and \$1,290,562 for the three and nine months ended September 30, 2018, respectively. The Company wrote off \$90,828 of capitalized development costs in 2019.

**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 loss per share for the nine months ended September 30, 2019 and the three and nine months ended September 30, 2018, no effect has been given to the issuance of common stock upon conversion or exercise of the following securities as their effect is anti-dilutive. The following table for 2019 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 September 2018 equity offering.

	Nine Months ended September 30,	
	2019	2018
Series 1 Convertible Preferred Stock	216,637	145,197
Series 2 Convertible Preferred Stock	5,639,745	7,506,249
Series 2 Convertible Preferred Stock issuable upon exercise of warrants	112,785	150,111
Common Stock Options	1,755,818	445,400
Common Stock Warrants	7,462,489	7,182,488
	<u>15,187,474</u>	<u>15,429,445</u>

The following table sets forth the computation of basic and diluted earnings per share for the three months ended September 30, 2019:

	September 30, 2019
<b>Numerator</b>	
Net income	\$ 1,387,982
Convertible Series 2 Preferred Share dividends	(609,717)
Convertible Series 2 Preferred Share dividends attributable to Series 1 Convertible Preferred Stock	7,386
Net Income attributable to Series 1 Convertible Preferred Stock	(16,814)
Numerator for diluted EPS – income attributable to common shareholders after assumed conversions	<u>\$ 768,837</u>
<b>Denominator</b>	
Denominator for basic EPS – weighted average shares	17,666,193
Effect of dilutive securities	
Common stock options	576,369
Common stock warrants	1,555,824
Denominator for diluted EPS – adjusted weighted average shares	<u>19,798,386</u>
Basic EPS	\$ 0.04
Diluted EPS	\$ 0.04

**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 (see Note 9).

**Fair Value of Financial Instruments** - The carrying value of loans payable under the Credit Agreement increased by unamortized issuance costs (see Note 7) and notes payable approximates fair value. The carrying value of cash, receivables, and payables approximate fair value due to their short-term nature.

**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, 2019, and 2018, 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.

**Recent Accounting Pronouncements** - In February 2016, the FASB issued ASU No. 2016-02, Leases, which is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Under ASU 2016-02, lessees will be required to recognize for all leases at the commencement date a 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. The Company has determined that the new standard will not materially impact the timing of revenue recognition. The new standard resulted in the Company classifying bad debt expense incurred as a reduction of lease revenue and fees within the consolidated statements of earnings including retrospective presentation of prior year financial information. As a result of the change in presentation, 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,	
	2019	2018
Lease revenues and fees	\$ 89,028,352	\$ 58,439,865
Provision for doubtful accounts	25,075,156	16,563,888
Lease revenues and fees, net of lessor bad debt expense	<u>\$ 63,953,196</u>	<u>\$ 41,875,977</u>

The new standard also impacted the Company as a lessee by requiring all of its operating leases to be recognized on the balance sheet as a right-to-use asset and lease liability. The Company has elected a package of optional practical expedients which includes the option to retain the current classification of leases entered into prior to January 1, 2019. The Company adopted this new guidance on January 1, 2019 (see Note 4 below).

#### 4. LEASES

**Lessor Information** - Refer to Note 3 to these condensed consolidated financial statements for further information about the Company's revenue generating activities as a lessor. All of the Company's customer agreements are considered operating leases, and the Company currently does not have any sales-type or direct financing leases.

**Lessee Information** - As a lessee, the Company leases retail, call center and corporate space under operating leases expiring at various times through 2028. At January 1, 2019, the Company recognized \$191,001 of operating lease assets and \$191,001 of operating lease liabilities as a result of adopting ASU 2016-02.

The Company determines if an arrangement is a lease at inception. Operating lease assets and liabilities are included in the Company's consolidated balance sheet beginning January 1, 2019. The breakout of operating lease assets, and current and non-current operating lease liabilities at September 30, 2019, is shown in the table below.

Supplemental balance sheet information related to leases is as follows:

	Balance Sheet Classification	September 30, 2019
<b>Assets</b>		
Operating Lease Asset	Property and Equipment, net	\$ 1,884,822
Finance Lease Asset	Property and Equipment, net	33,036
Total Lease Assets		<u>\$ 1,917,858</u>
<b>Liabilities</b>		
Operating Lease Liability – current portion	Current Lease Liabilities	\$ 116,403
Finance Lease Liability – current portion	Current Lease Liabilities	5,455
Operating Lease Liability- net of current portion	Long Term Lease Liabilities	1,885,096
Finance Lease Liability – net of current portion	Long Term Lease Liabilities	28,075
Total Lease Liabilities		<u>\$ 2,035,029</u>

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 operating leases:

	Weighted Average Discount Rate	Weighted Average Remaining Lease Term (in years)
Operating Leases	13.50%	9
Finance Leases	13.40%	5

Upon adoption of ASU 2016-02, discount rates for existing operating leases were established as of January 1, 2019. The discount rate for the new operating lease related to 901 Yamato Road, Boca Raton, FL was established as of June 1, 2019.

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 on a straight-line basis over the lease term within interest expense 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 \$121,314 and \$287,170 for the three and nine months ended September 30, 2019, respectively.

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

	Nine months ended September 30, 2019
Cash payments for operating leases	\$ 157,719
Cash payments for finance leases	2,391
New operating lease asset obtained in exchange for lease liabilities	1,869,287
New finance lease asset obtained in exchange for lease liabilities	34,772

The new operating lease asset obtained in exchange for operating lease liabilities, as shown above, does not include the \$14,900 of direct costs associated with the new operating lease capitalized as part of the right-of-use asset.

Below is a summary of undiscounted operating lease liabilities as of September 30, 2019. 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
2019	\$ 6,864
2020	303,681
2021	416,998
2022	407,450
2023	419,674
2024 and thereafter	2,048,091
Total undiscounted cash flows	3,602,758
Less: interest	(1,601,259)
Present value of lease liabilities	\$ 2,001,499

The Company entered into an office lease in January 2019. The lease commenced in June 2019, at which time the Company recognized the operating lease asset and liability. The Company pays a base monthly rent of \$31,532 with payments increasing by 3% on each yearly anniversary of the commencement date. The initial lease term is for 9 years with the Company having a one-time option to extend for 5 years.

Below is a summary of undiscounted finance lease liabilities as of September 30, 2019. 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
2019	\$ 2,391
2020	9,564
2021	9,564
2022	9,564
2023	9,564
2024 and thereafter	4,831
Total undiscounted cash flows	45,478
Less: interest	(11,948)
Present value of lease liabilities	<u>\$ 33,530</u>

## 5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	Estimated Useful Lives	September 30, 2019	December 31, 2018
Furniture, fixtures and vehicle	2-5 years	\$ 93,893	\$ 155,165
Website and internal use software	3 years	9,592,301	8,098,483
Computers and software	3-7 years	568,408	704,407
		<u>10,254,602</u>	<u>8,958,055</u>
Less: accumulated depreciation and amortization		(6,900,648)	(5,621,391)
Right of use assets, net		1,917,858	-
		<u>\$ 5,271,812</u>	<u>\$ 3,336,664</u>

Depreciation and amortization expense were \$530,520 and \$490,483 for the three months ended September 30, 2019 and 2018, respectively, and \$1,647,290 and \$1,387,150 for the nine months ended September 30, 2019 and 2018, respectively.

## 6. PROMISSORY NOTES

**January 2018 Notes** - In January 2018, FlexShopper, LLC entered into letter agreements with Russ Heiser, FlexShopper's Chief Financial Officer, and NRNS Capital Holdings LLC ("NRNS"), the manager of which is the Chairman of the Company's Board of Directors, respectively (such letter agreements, together, the "Commitment Letters"), pursuant to which FlexShopper, LLC issued a subordinated promissory note to each of Mr. Heiser and NRNS (together, the "Notes"). The Commitment Letters provided that Mr. Heiser and NRNS would each make advances to FlexShopper, LLC under the applicable Note in aggregate amounts up to \$1,000,000 and \$2,500,000, respectively. 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 (see Note 7) computed on the basis of a 360-day year, which equaled 18.03% at September 30, 2019.

Upon issuance of the Notes, FlexShopper, LLC drew \$500,000 and a subsequent \$500,000 on February 20, 2018 on the Note held by Mr. Heiser and \$2,500,000 on the Note held by NRNS. On August 29, 2018, FlexShopper, LLC issued amended and restated Notes to Mr. Heiser and NRNS under which (1) the maturity date for such Notes was set at June 30, 2019 and (2) in connection with the completion of an Equity Financing (as defined in the Notes), the holders of such Notes were granted the option to convert up to 50% of the outstanding principal of the Notes plus accrued and unpaid interest thereon into the securities issued in the Equity Financing at a conversion price equal to the price paid to the Company by the underwriters for such securities, net of the underwriting discount. In connection with the offering of units in September 2018, Mr. Heiser and NRNS elected to convert the convertible portion of the Notes, resulting in the issuance by the Company of 602,974 shares of common stock and 301,487 warrants to Mr. Heiser and 1,507,395 shares of common stock and 753,697 warrants to NRNS.

Prior to Mr. Heiser's Note maturity date, the Company paid down the entire principal and interest balance on June 28, 2019 in the amount of \$507,339. NRNS amended and restated the NRNS Note such that the maturity date of the revised Note was set at June 30, 2021. In addition, the Company drew \$500,000 on the Note held by NRNS on June 28, 2019. As of September 30, 2019, \$1,776,580 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 letter agreement with 122 Partners, LLC (the 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 principal and accrued interest under the January Note is 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 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 18.03% at September 30, 2019. 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. As of September 30, 2019, \$1,015,185 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 is 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 18.03% at September 30, 2019. 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. As of September 30, 2019, \$2,030,378 of principal and accrued and unpaid interest was outstanding on the February Note.

	<u>Debt Principal</u>	<u>Interest</u>
2019	\$ -	\$ 72,143
2020	\$ 1,000,000	\$ -
2021	\$ 3,750,000	\$ -

## 7. LOAN PAYABLE UNDER 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 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 \$32,500,000 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 April 1, 2019, the Commitment Termination Date was extended to February 28, 2021. The Lender was granted a security interest in certain leases as collateral under the Credit Agreement. The interest rate charged on amounts borrowed is LIBOR plus 11% per annum. At September 30, 2019, amounts borrowed bear interest at 13.03%. The Company had \$11,899,373 available under the Credit Agreement as of September 30, 2019.

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 Unrestricted Cash (including a reserve upon which the Lender may draw to satisfy unpaid amounts under the Credit Agreement) 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, 2019, follows:

	September 30, 2019	
	Required Covenant	Actual Position
Equity Book Value not less than	\$ 8,000,000	\$ 10,628,126
Unrestricted Cash greater than	1,500,000	3,172,362
Consolidated Total Debt to Equity Book Value ratio not to exceed	4.75	2.39

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.

Availability under the Credit Agreement is subject to a borrowing base which is redetermined from time to time and based on specific advance rates on eligible current assets. Interest expense incurred under the Credit Agreement amounted to \$725,702 and \$2,415,231 for the three and nine months ended September 30, 2019, respectively, and \$689,667 and \$2,103,891 for the three and nine months ended September 30, 2018, respectively. As of September 30, 2019, the outstanding balance under the Credit Agreement was \$20,600,627. Such amount is presented in the consolidated balance sheet net of unamortized issuance costs of \$367,346. Interest is payable monthly on the outstanding balance of the amounts borrowed. No principal is expected to be repaid in the next twelve months due to the Commitment Termination Date having been extended to February 28, 2021, or from reductions in the borrowing base. Accordingly, all principal is shown as a non-current liability at September 30, 2019.

## 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 preferred stock, par value \$0.001 per share. 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 has the right to determine the rights and preferences of any future designation of the Company's preferred stock, subject to the terms of the Series 1 and Series 2 Convertible Preferred Stock.

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

As of September 30, 2019, each share of Series 1 Convertible Preferred Stock was convertible into 1.26547 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.

68,214 shares of Series 1 Convertible Preferred Stock were converted into 86,323 shares of common stock during the nine months ended September 30, 2019. As of September 30, 2019, there were 171,191 shares of Series 1 Convertible Preferred Stock outstanding, which are convertible into 216,637 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, providing 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.

Shares of Series 2 Preferred Stock 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, 2019 totaled approximately \$7,783,368. As of September 30, 2019, each share of Series 2 Preferred Stock was convertible into approximately 257 shares of common stock; provided 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 warrants are immediately exercisable and expire five years from the date of issuance. The warrants are listed on the Nasdaq Capital Market under the symbol “FPAYW.”

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 (see Note 6). 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 “Consultant”), an entity of which the Company’s Chairman is manager, the Company agreed to issue 40,000 warrants to the Consultant 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. As of September 30, 2019, the Company recorded an expense of \$84,819 based on a weighted average valuation of \$0.30 per warrant as determined by the fair market value of the Company’s warrants that are actively traded and listed on the Nasdaq Capital Market under the symbol “FPAYW”.

Grant Date	Warrants Granted	Expense Recorded	Valuation Per Warrant
March 31, 2019	40,000	\$ 11,200	\$ 0.28
April 30, 2019	40,000	\$ 10,000	\$ 0.25
May 31, 2019	40,000	\$ 10,000	\$ 0.25
June 30, 2019	40,000	\$ 12,000	\$ 0.30
July 31, 2019	40,000	\$ 14,904	\$ 0.37
August 31, 2019	40,000	\$ 14,884	\$ 0.37
September 30, 2019	40,000	\$ 11,831	\$ 0.30
	<u>280,000</u>	<u>\$ 84,819</u>	<u>\$ 0.30</u>

The following table summarizes information about outstanding stock warrants as of September 30, 2019, all of which are exercisable:

Exercise Price	Common Stock Warrants Outstanding	Series 2 Preferred Stock Warrants Outstanding	Weighted Average Remaining Contractual Life
\$ 10.00	200,001		<1 year
\$ 5.50	177,304		2 years
\$ 1.25	6,965,184		4 years
\$ 1.76	40,000		4 years
\$ 2.00	40,000		4 years
\$ 1.69	40,000		4 years
\$ 1,250	-	439	4 years
	<u>7,462,489</u>	<u>439</u>	

## 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, consisting of 750,000 shares authorized for issuance under the 2018 Plan and an aggregate 307,000 shares then remaining available for issuance under the Company’s 2007 Omnibus Equity Compensation Plan (the “2007 Plan”) and 2015 Omnibus Equity Compensation Plan (the “2015 Plan”, and together with the 2007 Plan, the “Prior Plans”). 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 paid 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.

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, 2019 follows:

	Number of options	Weighted average exercise price	Weighted average contractual term (years)	Aggregate intrinsic value
Outstanding at January 1, 2019	620,900	\$ 3.75		
Granted	1,334,851	0.85		
Forfeited	(174,933)	1.36		100,087
Expired	(25,000)	6.20		
Outstanding at September 30, 2019	<u>1,755,818</u>	\$ 1.75	8.83	\$ 952,494
Vested and exercisable at September 30, 2019	<u>803,126</u>	\$ 2.64	8.18	\$ 334,420

The weighted average grant date fair value of options granted during the nine-month period ended September 30, 2019 was \$0.52 per share. 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:

Exercise price	\$ 0.85
Expected life	6.8 years
Expected volatility	63%
Dividend yield	0%
Risk-free interest rate	2.40%

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 \$117,134 and \$445,906 for the three and nine months ended September 30, 2019, respectively, and \$28,544 and \$101,025 for the three and nine months ended September 30, 2018, respectively. Unrecognized compensation cost related to non-vested options at September 30, 2019 amounted to approximately \$317,915, which is expected to be recognized over a weighted average period of 0.93 years.

## 10. INCOME TAXES

As of December 31, 2018, the Company had federal net operating loss carryforwards ("NOL") of approximately \$75,400,000 and state net operating loss carryforwards of approximately \$18,600,000 available to offset future taxable income which expire from 2024 to 2037. NOL's created after January 1, 2018 do not expire, but are limited.

Management believes that the federal and state deferred tax asset as of December 31, 2018 does not satisfy the realization criteria and has recorded a full valuation allowance to offset the deferred tax asset.

## 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, 2018. 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, 2018 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.

### 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 provide 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 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 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, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018
Accounts receivable	\$ 17,877,284	\$ 10,130,269
Allowance for doubtful accounts	(9,900,704)	(3,754,306)
Accounts receivable, net	<u>\$ 7,976,580</u>	<u>\$ 6,375,963</u>

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 will continue to accrue weekly charges until they are charged off. Accounts receivable balances charged off against the allowance were \$9,838,873 and \$19,215,275 for the three and nine months ended September 30, 2019, respectively, and \$6,766,876 and \$14,209,066 for the three and nine months ended September 30, 2018, 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.

**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, 2019 and 2018 are as follows:

	Three months ended September 30,		\$ Change	% Change
	2019	2018		
<b>Gross Profit:</b>				
Gross lease revenues and fees	\$ 31,567,587	\$ 20,514,492	\$ 11,053,095	53.9
Lease merchandise sold	665,074	490,208	174,866	35.7
Gross Revenue	32,232,661	21,004,700	11,227,961	53.5
Provision for doubtful accounts and revenue adjustments	(9,300,326)	(5,905,083)	(3,395,243)	57.5
Net revenues	22,932,335	15,099,617	7,832,718	51.9
Cost of merchandise sold	(457,399)	(349,209)	(108,190)	31.0
Cost of lease revenues, consisting of depreciation and impairment of lease merchandise	(14,248,969)	(10,289,709)	(3,959,260)	38.5
Gross Profit	\$ 8,225,967	\$ 4,460,699	\$ 3,765,268	84.4
Gross profit margin	37%	30%		

	Three months ended September 30,		\$ Change	% Change
	2019	2018		
<b>Adjusted EBITDA:</b>				
Net income/(loss)	\$ 1,387,982	\$ (2,717,403)	\$ 4,105,385	-
Amortization of debt costs	111,506	167,689	(56,183)	(33.5)
Other amortization and depreciation	531,289	491,252	40,037	8.1
Loss on debt extinguishment	-	126,622	(126,622)	-
Interest expense	950,288	894,138	56,150	6.3
Stock compensation	117,134	28,544	88,590	310.4
Non-recurring product/infrastructure expenses	79,272	-	79,272	-
Adjusted EBITDA	\$ 3,177,471	\$ (1,009,158)*	\$ 4,186,629	-

\* Represents loss

Key performance metrics for the nine months ended September 30, 2019 and 2018 are as follows:

	Nine months ended September 30,		\$ Change	% Change
	2019	2018		
<b>Gross Profit:</b>				
Gross lease revenues and fees	\$ 89,028,352	\$ 58,439,865	\$ 30,588,487	52.3
Lease merchandise sold	2,374,876	1,592,556	782,320	49.1
Gross Revenue	91,403,228	60,032,421	31,370,807	52.3
Provision for doubtful accounts and revenue adjustments	(25,075,156)	(16,563,888)	(8,511,268)	51.4
Net revenues	66,328,072	43,468,533	22,859,539	53.0
Cost of merchandise sold	(1,521,244)	(1,007,677)	(513,567)	51.0
Cost of lease revenues, consisting of depreciation and impairment of lease merchandise	(43,787,216)	(29,684,867)	(14,102,349)	47.5
Gross Profit	\$ 21,019,612	\$ 12,775,989	\$ 8,243,623	64.5
Gross profit margin	32%	30%		

	Nine months ended September 30,		\$ Change	% Change
	2019	2018		
<b>Adjusted EBITDA:</b>				
Net income/(loss)	\$ 1,581,579	\$ (6,978,653)	\$ 8,560,232	-
Amortization of debt costs	230,340	460,996	(230,656)	(50.0)
Other amortization and depreciation	1,649,597	1,389,456	260,141	18.7
Loss on debt extinguishment	-	126,622	(126,622)	
Interest expense	3,035,431	2,579,836	455,595	17.7
Stock compensation	445,906	101,025	344,881	341.4
Non-recurring product/infrastructure expenses	306,383	-	306,383	-
Adjusted EBITDA	\$ 7,249,236	\$ (2,320,718)*	\$ 9,569,954	-

\* Represents loss

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 are neither required by, nor presented in accordance with, GAAP. Adjusted EBITDA should not be considered as a substitute for GAAP metrics such as operating loss, net income or any other performance measures derived in accordance with GAAP.

## Results of Operations

### Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018

The following table details operating results for the three months ended September 30, 2019 and 2018:

	2019	2018	\$ Change	% Change
Gross lease revenues and fees	\$ 31,567,587	\$ 20,514,492	\$ 11,053,095	53.9
Provision for doubtful accounts	9,300,326	5,905,083	3,395,243	57.5
Lease revenues and fees, net of bad debt expense	22,267,261	14,609,409	7,657,852	52.4
Lease merchandise sold	665,074	490,208	174,866	35.7
Total revenues	22,932,335	15,099,617	7,832,718	51.9
Cost of lease revenue and merchandise sold	14,706,368	10,638,918	4,067,450	38.2
Marketing	868,452	1,596,322	(727,870)	(45.6)
Salaries and benefits	2,189,629	2,186,835	2,794	0.1
Other operating expenses	2,718,110	2,206,496	511,614	23.2
Operating income/(loss)	2,449,776	(1,528,954)	3,978,730	-
Loss on extinguishment of debt	-	126,622	(126,622)	-
Interest expense	1,061,794	1,061,827	(33)	(0.0)
Net income/(loss)	\$ 1,387,982	\$ (2,717,403)	\$ 4,105,385	-

FlexShopper originated 36,531 gross leases less same day modifications and cancellations with an average origination value of \$468 for the three months ended September 30, 2019 compared to 29,185 gross leases less same day modifications and cancellations with an average origination value of \$424 for the comparable period last year. Total lease revenues for the three months ended September 30, 2019 were \$22,267,261 compared to \$14,609,409 for the three months ended September 30, 2018, representing an increase of \$7,657,852, or 52.4%. Continued growth in repeat customers coupled with acquiring new customers with more efficient marketing spend is primarily responsible for the increase in leases and related revenue.

Cost of lease revenue and merchandise sold for the three months ended September 30, 2019 was \$14,706,368 compared to \$10,638,918 for the three months ended September 30, 2018, representing an increase of \$4,067,450, or 38.2%. Cost of lease revenue and merchandise sold for the three months ended September 30, 2019 is comprised of depreciation expense and impairment of lease merchandise of \$14,248,969 and the net book value of merchandise sold of \$457,399. Cost of lease revenue and merchandise sold for the three months ended September 30, 2018 is comprised of depreciation expense on lease merchandise of \$10,289,709 and the net book value of merchandise sold of \$349,209. As the Company's lease revenues increase, the direct costs associated with them also increase.

Marketing expenses in the three months ended September 30, 2019 was \$868,452 compared to \$1,596,322 in the three months ended September 30, 2018, a decrease of \$727,870, or 45.6%. The Company strategically curtailed marketing expenditures in its digital and TV channels in an effort to reduce customer acquisition cost.

Salaries and benefits in the three months ended September 30, 2019 was \$2,189,629 compared to \$2,186,835 in the three months ended September 30, 2018, an increase of \$2,794, or 0.1%.

Other operating expenses for the three months ended September 30, 2019 and 2018 included the following:

	2019	2018
Amortization and depreciation	\$ 531,289	\$ 491,252
Computer and internet expenses	409,613	329,171
Legal and professional fees	257,973	225,709
Merchant bank fees	446,217	330,284
Stock compensation expense	117,134	28,544
Customer verification expenses	526,616	276,601
Other	429,268	524,935
Total	<u>\$ 2,718,110</u>	<u>\$ 2,206,496</u>

#### Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018

The following table details operating results for the nine months ended September 30, 2019 and 2018:

	2019	2018	\$ Change	% Change
Gross lease revenues and fees	\$ 89,028,352	\$ 58,439,865	\$ 30,588,487	52.3
Provision for doubtful accounts	25,075,156	16,563,888	8,511,268	51.4
Lease revenues and fees, net of bad debt expense	63,953,196	41,875,977	22,077,219	52.7
Lease merchandise sold	2,374,876	1,592,556	782,320	49.1
Total revenues	66,328,072	43,468,533	22,859,539	52.6
Cost of lease revenue and merchandise sold	45,308,460	30,692,544	14,615,916	47.6
Marketing	2,031,227	4,025,509	(1,994,282)	(49.5)
Salaries and benefits	5,984,797	6,397,999	(413,202)	(6.5)
Other operating expenses	8,156,238	6,163,680	1,992,558	32.3
Operating income/(loss)	4,847,350	(3,811,199)	8,658,549	-
Loss on extinguishment of debt	-	126,622	(126,622)	-
Interest expense	3,265,771	3,040,832	224,939	7.4
Net income/(loss)	<u>\$ 1,581,579</u>	<u>\$ (6,978,653)</u>	<u>\$ 8,560,232</u>	<u>-</u>

FlexShopper originated 95,731 gross leases less same day modifications and cancellations with an average origination value of \$466 for the nine months ended September 30, 2019 compared to 74,702 gross leases less same day modifications and cancellations with an average origination value of \$412 for the comparable period last year. Total lease revenues for the nine months ended September 30, 2019 were \$63,953,196 compared to \$41,875,977 for the nine months ended September 30, 2018, representing an increase of \$22,077,219, or 52.7%. Continued growth in repeat customers coupled with acquiring new customers with more efficient marketing spend is primarily responsible for the increase in leases and related revenue.

Cost of lease revenue and merchandise sold for the nine months ended September 30, 2019 was \$45,308,460 compared to \$30,692,544 for the nine months ended September 30, 2018, representing an increase of \$14,615,916, or 47.6%. Cost of lease revenue and merchandise sold for the nine months ended September 30, 2019 is comprised of depreciation expense and impairment of lease merchandise of \$43,787,216 and the net book value of merchandise sold of \$1,521,244. Cost of lease revenue and merchandise sold for the nine months ended September 30, 2018 is comprised of depreciation expense on lease merchandise of \$29,684,866 and the net book value of merchandise sold of \$1,007,677. As the Company's lease revenues increase, the direct costs associated with them also increase.

Marketing expenses in the nine months ended September 30, 2019 was \$2,031,227 compared to \$4,025,509 in the nine months ended September 30, 2018, a decrease of \$1,994,282, or 49.5%. The Company strategically curtailed marketing expenditures in its digital and TV channels in an effort to reduce customer acquisition cost.

Salaries and benefits in the nine months ended September 30, 2019 was \$5,984,797 compared to \$6,397,999 in the nine months ended September 30, 2018, a decrease of \$413,202, or 6.5%. Head count reduction that took place in the fourth quarter of 2018 and further development of internally developed software are the drivers for the decrease in salaries and benefits expenses.

Other operating expenses for the nine months ended September 30, 2019 and 2018 included the following:

	2019	2018
Amortization and depreciation	\$ 1,649,597	\$ 1,389,456
Computer and internet expenses	1,182,690	1,010,211
Legal and professional fees	877,156	627,977
Merchant bank fees	1,374,283	964,768
Stock compensation expense	445,906	101,025
Customer verification expenses	1,224,059	776,549
Other	1,402,547	1,293,694
Total	<u>\$ 8,156,238</u>	<u>\$ 6,163,680</u>

### Plan of Operation

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 and name recognition. 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, 2019, the Company had cash of \$3,172,362 compared to \$7,282,103 at the same date in 2018. As of December 31, 2018, the Company had cash of \$6,141,210. The decrease in cash from December 31, 2018, was primarily due to the paydown of the holiday advance on the Credit Agreement and lease merchandise acquired.

As of September 30, 2019, the Company had accounts receivable of \$17,877,284 offset by an allowance for doubtful accounts of \$9,900,704, resulting in net accounts receivable of \$7,976,580. Accounts receivable are principally comprised of lease payments owed to the Company. An allowance for doubtful accounts is estimated based upon historical collection and delinquency percentages.

### Recent Financing Activity

On September 28, 2018, the Company completed an offering of 10,000,000 units (the "Offering") issued at a price of \$1.00 per unit, each unit consisting of one share of the Company's common stock and one-half (1/2) of one warrant, each whole warrant exercisable for one share of common stock at an exercise price of \$1.25 per warrant. In addition, in connection with the closing of the Offering, the underwriter in the Offering partially exercised its over-allotment option under the underwriting agreement relating to the Offering by electing to purchase warrants exercisable for 750,000 shares of common stock having the same terms as the warrants sold in the Offering. The common stock and warrants included in the units sold in the Offering were immediately separable and issued separately. Net proceeds for the Offering were approximately \$9.2 million, after deducting underwriting discounts and commissions and other offering expenses, of which amount the Company used approximately \$2.7 million to repay indebtedness owing under the Credit Agreement. As a result of the Offering, pursuant to anti-dilution provisions, the conversion price of Series 2 Convertible Preferred Stock decreased from \$8.10 per share of common stock to \$2.92.

Pursuant to amendments to the Credit Agreement entered into prior to the Offering, upon consummation of the Offering, the Commitment Termination Date (as defined in the Credit Agreement) was extended to June 30, 2019, which date was subsequently extended to February 28, 2021.

On January 25, 2019, FlexShopper, LLC entered into a letter agreement with 122 Partners, LLC (the 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 principal and accrued interest under the January Note is 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 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. 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 essentially all of FlexShopper, LLC's assets, subject to rights of the lenders under the Credit Agreement.

On February 19, 2019, FlexShopper, LLC entered into a letter agreement with NRNS Capital Holdings LLC ("NRNS"), pursuant to which FlexShopper, LLC 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 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. 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.

## **Cash Flow Summary**

### **Cash Flows from Operating Activities**

Net cash provided by operating activities was \$3,990,643 for the nine months ended September 30, 2019 primarily due to the net income for the period.

Net cash used in operating activities was \$3,835,827 for the nine months ended September 30, 2018 and was primarily due to the net loss for the period.

### **Cash Flows from Investing Activities**

For the nine months ended September 30, 2019, net cash used in investing activities was \$1,664,580 comprised of \$79,934 for the purchase of property and equipment and \$1,584,646 for capitalized software costs.

For the nine months ended September 30, 2018, net cash used in investing activities was \$1,752,095, comprised of \$14,164 for the purchase of property and equipment and \$1,737,931 for capitalized software costs.

### **Cash Flows from Financing Activities**

Net cash used in financing activities was \$5,294,911 for the nine months ended September 30, 2019 due to loan repayments on the Credit Agreement of \$10,528,488 and \$243,750 of debt issuance related costs partially offset by \$2,940,000 of net funds drawn on the Promissory Notes and \$2,523,828 of funds drawn on the Credit Agreement.

Net cash provided by financing activities was \$7,901,110 for the nine months ended September 30, 2018 due to \$9,144,690 of net proceeds from the equity raise, \$3,465,000 of funds drawn on the Promissory Notes and \$5,185,000 of funds drawn on the Credit Agreement, partially offset by loan repayments on the Credit Agreement of \$9,786,487.

## **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 future growth through at least the next 12 months can be met by cash flow from operations generated by the existing portfolio and/or additional borrowings against the Credit Agreement (see Note 7).

## **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, 2019.

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, 2018. 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, 2019, the Company has issued warrants exercisable for 280,000 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. The warrants are exercisable immediately at a weighted average price of \$1.49 per share and an exercise price range from \$1.25 to \$2.00 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, 2019:

Grant Date	Warrants Granted
July 31, 2019	40,000
August 31, 2019	40,000
September 30, 2019	40,000
	<u>120,000</u>

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

### ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

### ITEM 5. OTHER INFORMATION.

None.

**ITEM 6. EXHIBITS:**

<b>Exhibit Number</b>	<b>Description</b>
3.1	<a href="#">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)</a>
3.2	<a href="#">Amended and Restated Bylaws (previously filed as Exhibit 3.1 to the Company's Current Report on Form 10-K filed on March 11, 2019 and incorporated herein by reference)</a>
3.3	<a href="#">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)</a>
3.4	<a href="#">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)</a>
10.1	<a href="#">Employment Agreement, dated September 20, 2019, between FlexShopper, Inc. and Richard House, Jr. (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 23, 2019 and incorporated herein by reference)</a>
31.1	<a href="#">Rule 13a-14(a) Certification - Principal Executive Officer*</a>
31.2	<a href="#">Rule 13a-14(a) Certification - Principal Financial Officer*</a>
32.1	<a href="#">Section 1350 Certification - Principal Executive Officer*</a>
32.2	<a href="#">Section 1350 Certification - Principal Financial Officer*</a>
101.INS	XBRL Instance Document, XBRL Taxonomy Extension Schema*
101.SCH	Document, XBRL Taxonomy Extension*
101.CAL	Calculation Linkbase, XBRL Taxonomy Extension Definition*
101.DEF	Linkbase, XBRL Taxonomy Extension Labels*
101.LAB	Linkbase, XBRL Taxonomy Extension*
101.PRE	Presentation Linkbase*

\* Filed herewith.

+ Indicates a management contract or compensatory plan or arrangement.

**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 4, 2019

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

Date: November 4, 2019

By: /s/ H. Russell Heiser  
H. Russell Heiser  
Chief Financial Officer  
(Principal Financial Officer)

## 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 4, 2019

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

## CERTIFICATION OF PRINCIPAL FINANCIAL 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 4, 2019

By: /s/ H. Russell Heiser  
**H. Russell Heiser**  
**Chief Financial Officer**  
**(Principal Financial Officer)**

**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, 2019 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.

November 4, 2019

By: /s/ Richard House Jr.

**Richard House Jr.**  
**Chief Executive Officer**  
**(Principal Executive Officer)**

**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, 2019 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.

November 4, 2019

By: /s/ H. Russell Heiser

**H. Russell Heiser**  
**Chief Financial Officer**  
**(Principal Financial Officer)**