**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, 2024

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

For the transition period from _______ to _______

Commission file number: 001-37945

**FLEXSHOPPER, INC.**
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Non-accelerated filer | ☒ |
| Accelerated filer | ☐ | Smaller reporting company | ☒ |
| | | Emerging growth company | ☐ |

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

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

As of November 18, 2024, the issuer had a total of 21,461,489 shares of common stock outstanding.

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## 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:

- general economic conditions, including inflation, rising interest rates, and other adverse macro-economic conditions;
- the impact of deteriorating macro-economic environment, including bank defaults and closures on our customer's ability to make the payment they owe our business and on our proprietary algorithms and decisioning tools used in approving customer to be indicative of customer's ability to perform;
- our ability to complete our proposed equity subscription rights offering and raise sufficient funds to, among other uses, repurchase our series 2 convertible preferred stock and reduce the outstanding balance under our credit facility, as described in Note 18 of the Notes to Condensed Consolidated Financial Statements included herein;
- our ability to maintain compliance with financial covenants under our credit agreement;
- the failure to successfully manage and grow our FlexShopper.com e-commerce platform;
- our ability to compete in a highly competitive industry;
- our ability to attract and onboard a new bank partner that originates the loans in the bank partner loan model;
- our dependence on the success of our third-party retailers and our continued relationships with them;
- our relationship with the bank partner that originate the loans in the bank partner loan model;
- 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;
- our ability to attract and retain key executives and employees;
- our ability to realize the deferred tax asset; and
- the other risks and uncertainties described in "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, 2023.

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.

## PART I. FINANCIAL INFORMATION

**Item 1. Financial Statements.**

### FLEXSHOPPER, INC.
### CONDENSED CONSOLIDATED BALANCE SHEETS

| | September 30, 2024 | December 31, 2023 |
|---|---|---|
| | (Unaudited) | |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | $ 7,330,542 | $ 4,413,130 |
| Lease receivables, net | 66,181,471 | 44,795,090 |
| Loan receivables at fair value | 47,116,140 | 35,794,290 |
| Prepaid expenses and other assets | 4,583,392 | 3,300,677 |
| Lease merchandise, net | 24,087,010 | 29,131,440 |
| Total current assets | 149,298,555 | 117,434,627 |
| | | |
| Property and equipment, net | 9,495,192 | 9,308,859 |
| Right of use asset, net | 1,093,551 | 1,237,010 |
| Intangible assets, net | 12,064,118 | 13,391,305 |
| Other assets, net | 2,528,397 | 2,175,215 |
| Deferred tax asset, net | 12,781,946 | 12,943,361 |
| Total assets | $ 187,261,759 | $ 156,490,377 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 3,604,816 | $ 7,139,848 |
| Accrued payroll and related taxes | 744,371 | 578,197 |
| Promissory notes to related parties, including accrued interest, and net of unamortized issuance costs of $305,860 at September 30, 2024 | 10,616,988 | 198,624 |
| Accrued expenses | 3,477,386 | 3,972,397 |
| Lease liability - current portion | 275,029 | 245,052 |
| Total current liabilities | 18,718,590 | 12,134,118 |
| Loan payable under credit agreement to beneficial shareholder, net of unamortized issuance costs of $1,142,325 at September 30, 2024 and $70,780 at December 31, 2023 | 130,274,365 | 96,384,220 |
| Promissory notes to related parties, net of unamortized issuance costs of $649,953 at December 31, 2023 and net of current portion | - | 10,100,047 |
| Loan payable under Basepoint credit agreement, net of unamortized issuance costs of $64,113 at September 30, 2024 and $92,964 at December 31, 2023 | 7,348,492 | 7,319,641 |
| Lease liabilities, net of current portion | 1,111,740 | 1,321,578 |
| Total liabilities | 157,453,187 | 127,259,604 |
| | | |
| STOCKHOLDERS' EQUITY | | |
| Series 1 Convertible Preferred Stock, $0.001 par value - authorized 250,000 shares, issued and outstanding 170,332 shares at $5.00 stated value | 851,660 | 851,660 |
| Series 2 Convertible Preferred Stock, $0.001 par value - authorized 25,000 shares, issued and outstanding 21,952 shares at $1,000 stated value | 21,952,000 | 21,952,000 |
| Common stock, $0.0001 par value - authorized 40,000,000 shares, issued 21,988,711 shares at September 30, 2024 and 21,752,304 shares at December 31, 2023 | 2,200 | 2,176 |
| Treasury shares, at cost- 526,822 shares at September 30, 2024 and 164,029 shares at December 31, 2023 | (563,537) | (166,757) |
| Additional paid in capital | 42,841,302 | 42,415,894 |
| Accumulated deficit | (35,275,053) | (35,824,200) |
| Total stockholders' equity | 29,808,572 | 29,230,773 |
| | $ 187,261,759 | $ 156,490,377 |

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

**FLEXSHOPPER, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**(unaudited)**

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| **Revenues:** | | | | |
| Lease revenues and fees, net | $ 28,364,190 | $ 21,082,199 | $ 81,271,973 | $ 68,703,201 |
| Loan revenues and fees, net of changes in fair value | 9,047,165 | 10,304,247 | 19,692,817 | 18,001,057 |
| Retail revenues | 1,177,146 | - | 3,327,468 | - |
| Total revenues | 38,588,501 | 31,386,446 | 104,292,258 | 86,704,258 |
| | | | | |
| **Costs and expenses:** | | | | |
| Depreciation and impairment of lease merchandise | 14,486,564 | 13,061,958 | 43,021,351 | 42,893,163 |
| Loan origination costs and fees | 677,913 | 1,389,107 | 2,395,780 | 4,878,158 |
| Cost of retail revenues | 923,203 | - | 2,593,505 | - |
| Marketing | 2,005,559 | 1,671,137 | 6,316,945 | 4,258,904 |
| Salaries and benefits | 4,049,422 | 3,231,100 | 12,357,955 | 8,933,998 |
| Operating expenses | 6,888,348 | 6,080,725 | 20,628,182 | 17,666,366 |
| **Total costs and expenses** | 29,031,009 | 25,434,027 | 87,313,718 | 78,630,589 |
| | | | | |
| **Operating income** | 9,557,492 | 5,952,419 | 16,978,540 | 8,073,669 |
| | | | | |
| Interest expense including amortization of debt issuance costs | (5,672,594) | (4,746,801) | (16,213,843) | (13,846,685) |
| Income/ (loss) before income taxes | 3,884,898 | 1,205,618 | 764,697 | (5,773,016) |
| Income taxes (expense)/ benefit | (1,518,514) | (265,517) | (215,550) | 1,185,247 |
| **Net income/ (loss)** | 2,366,384 | 940,101 | 549,147 | (4,587,769) |
| | | | | |
| Dividends on Series 2 Convertible Preferred Shares | (1,176,402) | (1,069,456) | (3,337,600) | (3,034,182) |
| **Net income/ (loss) attributable to common and Series 1 Convertible Preferred shareholders** | $ 1,189,982 | $ (129,355) | $ (2,788,453) | $ (7,621,951) |
| | | | | |
| **Basic and diluted income/ (loss) per common share:** | | | | |
| Basic | $ 0.05 | $ (0.01) | $ (0.13) | $ (0.35) |
| Diluted | $ 0.05 | $ (0.01) | $ (0.13) | $ (0.35) |
| | | | | |
| WEIGHTED AVERAGE COMMON SHARES: | | | | |
| Basic | 21,586,935 | 21,716,852 | 21,547,702 | 21,740,027 |
| Diluted | 22,231,788 | 21,716,852 | 21,547,702 | 21,740,027 |

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

# FLEXSHOPPER, INC.
## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
### For the nine months ended September 30, 2024 and 2023
### (unaudited)

| | Series 1 Convertible Preferred Stock | | Series 2 Convertible Preferred Stock | | Common Stock | | Treasury Stock | | Additional Paid in Capital | Accumulated Deficit | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | Shares | Amount | | | |
| Balance, January 1, 2024 | 170,332 | $ 851,660 | 21,952 | $ 21,952,000 | 21,752,304 | $ 2,176 | 164,029 | $ (166,757) | $ 42,415,894 | $ (35,824,200) | $ 29,230,773 |
| Provision for compensation expense related to stock-based compensation | - | - | - | - | - | - | - | - | 217,125 | - | 217,125 |
| Purchases of treasury stock | - | - | - | - | - | - | 5,418 | (6,098) | - | - | (6,098) |
| Net loss | - | - | - | - | - | - | - | - | - | (214,179) | (214,179) |
| Balance, March 31, 2024 | 170,332 | $ 851,660 | 21,952 | $ 21,952,000 | 21,752,304 | $ 2,176 | 169,447 | $ (172,855) | $ 42,633,019 | $ (36,038,379) | $ 29,227,621 |
| Provision for compensation expense related to stock-based compensation | - | - | - | - | - | - | - | - | 154,873 | - | 154,873 |
| Vesting of performance share units, net of share withheld for employee taxes | - | - | - | - | 236,407 | 24 | - | - | (103,512) | - | (103,488) |
| Purchases of treasury stock | - | - | - | - | - | - | 176,811 | (194,708) | - | - | (194,708) |
| Net loss | - | - | - | - | - | - | - | - | - | (1,603,058) | (1,603,058) |
| Balance, June 30, 2024 | 170,332 | $ 851,660 | 21,952 | $ 21,952,000 | 21,988,711 | $ 2,200 | 346,258 | $ (367,563) | $ 42,684,380 | $ (37,641,437) | $ 27,481,240 |
| Provision for compensation expense related to stock-based compensation | - | - | - | - | - | - | - | - | 156,922 | - | 156,922 |
| Purchases of treasury stock | - | - | - | - | - | - | 180,564 | (195,974) | - | - | (195,974) |
| Net income | - | - | - | - | - | - | - | - | - | 2,366,384 | 2,366,384 |
| Balance, September 30, 2024 | 170,332 | $ 851,660 | 21,952 | $ 21,952,000 | 21,988,711 | $ 2,200 | 526,822 | $ (563,537) | $ 42,841,302 | $ (35,275,053) | $ 29,808,572 |

| | Series 1 Convertible Preferred Stock | | Series 2 Convertible Preferred Stock | | Common Stock | | Treasury Stock | | Additional Paid in Capital | Accumulated Deficit | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | Shares | Amount | | | |
| Balance, January 1, 2023 | 170,332 | $ 851,660 | 21,952 | $ 21,952,000 | 21,750,804 | $ 2,176 | | | $ 39,819,420 | $ (31,590,583) | $ 31,034,673 |
| Provision for compensation expense related to stock-based compensation | - | - | - | - | - | - | - | - | 420,748 | - | 420,748 |
| Exercise of stock options into common stock | - | - | - | - | 1,500 | - | - | - | 1,185 | - | 1,185 |
| Net loss | - | - | - | - | - | - | - | - | - | (230,215) | (230,215) |
| Balance, March 31, 2023 | 170,332 | $ 851,660 | 21,952 | $ 21,952,000 | 21,752,304 | $ 2,176 | — | — | $ 40,241,353 | $ (31,820,798) | $ 31,226,391 |
| Provision for compensation expense related to stock-based compensation | - | - | - | - | - | - | - | - | 443,800 | - | 443,800 |
| Extension of warrants | - | - | - | - | - | - | - | - | 917,581 | - | 917,581 |
| Net loss | - | - | - | - | - | - | - | - | - | (5,297,655) | (5,297,655) |
| Balance, June 30, 2023 | 170,332 | $ 851,660 | 21,952 | $ 21,952,000 | 21,752,304 | $ 2,176 | — | — | $ 41,602,734 | $ (37,118,453) | $ 27,290,117 |
| Provision for compensation expense related to stock-based compensation | - | - | - | - | - | - | - | - | 471,819 | - | 471,819 |
| Purchase of treasury stock | - | - | - | - | - | - | 100,775 | (100,225) | - | - | (100,225) |
| Net income | - | - | - | - | - | - | - | - | - | 940,101 | 940,101 |
| Balance, September 30, 2023 | 170,332 | $ 851,660 | 21,952 | $ 21,952,000 | 21,752,304 | $ 2,176 | 100,775 | $ (100,225) | $ 42,074,553 | $ (36,178,352) | $ 28,601,812 |

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

**FLEXSHOPPER, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**For the nine months ended September 30, 2024 and 2023**
**(unaudited)**

| | 2024 | 2023 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income/ (loss) | $ 549,147 | $ (4,587,769) |
| Adjustments to reconcile net income/ (loss) to net cash (used in)/ provided by operating activities: | | |
| Depreciation and impairment of lease merchandise | 43,021,351 | 42,893,163 |
| Other depreciation and amortization | 7,134,573 | 5,674,931 |
| Amortization of debt issuance costs | 824,499 | 376,857 |
| Amortization of discount on the promissory note related to acquisition | - | 177,714 |
| Compensation expense related to stock-based compensation | 528,920 | 1,336,367 |
| Provision for doubtful accounts | 25,373,485 | 32,123,950 |
| Deferred income tax | 161,415 | (1,192,223) |
| Net changes in the fair value of loans receivables at fair value | (11,165,374) | (6,258,279) |
| Changes in operating assets and liabilities: | | |
| Lease receivables | (46,759,866) | (38,004,947) |
| Loans receivables at fair value | (156,476) | 7,510,901 |
| Prepaid expenses and other assets | (1,404,487) | 641,039 |
| Lease merchandise | (37,976,921) | (34,939,330) |
| Purchase consideration payable related to acquisition | - | 208,921 |
| Lease liabilities | (31,801) | (19,566) |
| Accounts payable | (3,535,032) | (2,501,399) |
| Accrued payroll and related taxes | 166,174 | 293,018 |
| Accrued expenses | (520,787) | (1,170,585) |
| Net cash (used in)/ provided by operating activities | (23,791,180) | 2,562,763 |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment, including capitalized software costs | (4,889,386) | (4,565,819) |
| Purchases of data costs | (1,335,743) | (570,820) |
| Net cash used in investing activities | (6,225,129) | (5,136,639) |
| | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from loan payable under credit agreement | 34,961,690 | 7,800,000 |
| Repayment of loan payable under credit agreement | - | (2,795,000) |
| Repayment of loan payable under Basepoint credit agreement | - | (1,500,000) |
| Repayment of promissory notes to related parties | - | (1,000,000) |
| Debt issuance related costs | (1,523,100) | (115,403) |
| Proceeds from exercise of stock options | - | 1,185 |
| Principal payment under finance lease obligation | (4,601) | (7,308) |
| Repayment of purchase consideration payable related to acquisition | | (144,913) |
| Tax payments associated with equity-based compensation transactions | (103,488) | - |
| Purchase of treasury stock | (396,780) | (100,225) |
| Net cash provided by financing activities | 32,933,721 | 2,138,336 |
| | | |
| INCREASE/ (DECREASE) IN CASH | 2,917,412 | (435,540) |
| | | |
| CASH, beginning of period | 4,413,130 | 6,173,349 |
| | | |
| CASH, end of period | $ 7,330,542 | $ 5,737,809 |
| | | |
| Supplemental cash flow information: | | |
| Interest paid | $ 14,759,775 | $ 12,811,332 |
| Noncash investing and financing activities | | |
| Due date extension of warrants | $ - | $ 917,581 |

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

**FLEXSHOPPER, INC.**
**Notes To Condensed Consolidated Financial Statements**
**For the nine months ended September 30, 2024 and 2023**
**(Unaudited)**

## 1. BASIS OF PRESENTATION

The unaudited condensed consolidated 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, 2023 filed with the SEC on April 1, 2024.

The condensed consolidated balance sheet as of December 31, 2023 contained herein has been derived from audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements.

Certain prior year/period amounts have been reclassified to conform to the current year presentation.

## 2. BUSINESS

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

In January 2015, in connection with the Credit Agreement entered in March 2015 (see Note 8), FlexShopper 1 LLC and FlexShopper 2 LLC were organized as wholly owned Delaware subsidiaries of FlexShopper LLC to conduct operations. FlexShopper, Inc., together with its subsidiaries, are hereafter referred to as "FlexShopper."

FlexShopper, LLC provides durable goods to consumers on a lease-to-own basis ("LTO"). After receiving a signed consumer lease, the Company then funds the leased item by purchasing the item from the Company's merchant partner and leasing it to the consumer. FlexShopper, LLC also sells products to other lenders that offer finance options in FlexShopper's website.

FlexLending, LLC participates in a consumer finance program offered by a third-party bank partner. The third-party originates unsecured consumer loans through strategic sales channels. Under this program, FlexLending, LLC purchases a participation interest in each of the loans originated by the third-party.

Flex Revolution, LLC operates a direct origination model for consumers in 11 states. In the direct origination model, applicants who apply and obtain a loan through our platform are underwritten, approved, and funded directly by the Company.

**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 periods. Actual results could differ from those estimates.

**Segment Information** - Operating segments are defined as components of an enterprise about which separate financial information is available between which resources are allocated by the chief operating decision maker. The Company's chief operating decision maker is the Chief Executive Officer. The Company has one operating and reportable segment that includes all the Company's financial services, which is consistent with the current organizational structure.

**Cash and Cash Equivalents –** The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Company maintains cash and cash equivalents with high-quality financial institutions, which at times exceed the Federal Deposit Insurance Corporation insurance limits. While the Company monitors daily the cash balances in its operating accounts and adjusts the balances as appropriate, these balances could be impacted if one or more of the financial institutions with which the Company deposits fails or is subject to other adverse conditions in the financial or credit markets. To date, the Company has experienced no loss or lack of access to its invested cash or cash equivalents; however, no assurance can be provided that access to invested cash and cash equivalents will not be impacted by adverse conditions in the financial and credit markets. As of September 30, 2024 and December 31, 2023, the Company had no cash equivalents.

**Lease 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 completion of all required lease payments, generally 52 weeks. On any current lease, customers have the option to cancel the agreement in accordance with lease terms and return the merchandise. Customer agreements are accounted for as operating leases with lease revenues recognized in the month they are due on the accrual basis of accounting. Revenue for lease payments received prior to their due date is deferred and is recognized as revenue in the period to which the payments relate. Revenues from leases and sales are reported net of sales taxes.

**Retail Revenue Recognition** – The Company sells products directly to other lenders that offer alternative solutions on FlexShopper's website and make a profit on the product margin. The Company accounts for the Retail Revenue under Accounting Standard Codification ("ASC") 606. The Company has a single performance obligation that is the delivery of the product, at which point control transfers. Revenue for the sale of products is recognized at the time of delivery.

**Lease Receivables and Allowance for Doubtful Accounts -** FlexShopper seeks to collect amounts owed under its leases from each customer on a weekly or biweekly basis by charging their bank accounts or credit cards. Lease receivables are principally comprised of lease payments currently owed to FlexShopper which are past due, as FlexShopper has been unable to successfully collect in the aforementioned manner and therefore the Company has an in-house and near-shore team to collect on the past due amounts. FlexShopper maintains an allowance for doubtful accounts, under which FlexShopper's policy is to record an allowance for estimated uncollectible charges, primarily based on historical collection experience that considers both the aging of the lease and the origination channel. Other qualitative factors are considered in estimating the allowance, such as seasonality, underwriting changes and other business trends. We believe our allowance is adequate to absorb all expected losses. The lease receivables balances consisted of the following as of September 30, 2024 and December 31, 2023:

| | September 30, 2024 | December 31, 2023 |
|---|---|---|
| Lease receivables | $ 104,879,703 | $ 64,749,918 |
| Allowance for doubtful accounts | (38,698,232) | (19,954,828) |
| Lease receivables, net | $ 66,181,471 | $ 44,795,090 |

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. Lease receivables balances charged off against the allowance were $2,393,131 and $6,630,081 for the three and nine months ended September 30, 2024, respectively, and $726,007 and $33,454,814 for the three and nine months ended September 30, 2023, respectively.

| | Nine Months Ended September 30, 2024 | Year Ended December 31, 2023 |
|---|---|---|
| Beginning balance | $ 19,954,828 | $ 13,078,800 |
| Provision | 25,373,485 | 42,505,647 |
| Accounts written off | (6,630,081) | (35,629,619) |
| Ending balance | $ 38,698,232 | $ 19,954,828 |

**Lease Merchandise, net** - 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 Company reflects the undepreciated portion of the lease merchandise as depreciation expense and the related cost and accumulated depreciation are removed from lease merchandise. For lease merchandise 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 depreciation and impairment of lease merchandise. The cost, accumulated depreciation and impairment reserve related to such merchandise are written off upon determination that no salvage value is obtainable.

The net lease merchandise balances consisted of the following as of September 30, 2024 and December 31, 2023:

| | September 30, 2024 | December 31, 2023 |
|---|---|---|
| Lease merchandise at cost | $ 48,382,621 | $ 49,687,498 |
| Accumulated depreciation and impairment reserve | (24,295,611) | (20,556,058) |
| Lease merchandise, net | $ 24,087,010 | $ 29,131,440 |

**Loan receivables at fair value –** The Company elected the fair value option on its entire loan and loan participation receivables portfolio. As such, loan receivables are carried at fair value in the consolidated balance sheets with changes in fair value recorded in the consolidated statements of operations. Accrued and unpaid interest and fees are included in loan receivables at fair value in the consolidated balance sheets. Management believes the reporting of these receivables at fair value method closely approximates the true economics of the loan.

Interest and fees are discontinued when loan receivables become contractually 90 or more days past due. The Company charges-off loans at the earlier of when the loans are determined to be uncollectible or when the loans are 90 days contractually past due. Recoveries on loan receivables that were previously charged off are recognized when cash is received. Changes in the fair value of loan receivables include the impact of current period charge offs associated with these receivables.

The Company estimates the fair value of the loan receivables using a discounted cash flow analysis at an individual loan level to more accurately predict future payments. The Company adjusts expected cash flows for estimated losses and servicing costs over the estimated duration of the underlying assets. These adjustments are determined using historical data and include appropriate consideration of recent trends and anticipated future performance. Future cash flows are discounted using a rate of return that the Company believes a market participant would require. Model results may be adjusted by management if the Company does not believe the output reflects the fair value of the instrument, as defined under U.S. GAAP. The models are updated at each measurement date to capture any changes in internal factors such as nature, term, volume, payment trends, remaining time to maturity, and portfolio mix, as well as changes in underwriting or observed trends expected to impact future performance.

Further details concerning loan receivables at fair value are presented within "Fair Value Measurement" section in this Note.

Net changes in the fair value of loan receivables included in the consolidated statements of operations in the line "loan revenues and fees, net of changes in fair value" was a gain of $6,266,498 and $11,165,374 for the three and nine months ended September 30, 2024, respectively, and a gain of $7,095,327 and $6,258,279 for the three and nine months ended September 30, 2023, respectively.

**Lease Accounting** - The Company accounts for leases in accordance with Accounting Standards Codification (ASC) Topic 842 Leases (Topic 842). Under Topic 842, lessees are required to recognize leases at the commencement date as 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. For more information on leases for which the Company is lessee, refer to Note 4 to the condensed consolidated financial statements. Under the same Topic, lessors are also required to classify leases. All customer agreements are considered operating leases, and the Company currently does not have any sales-type or direct financing leases as a lessor. An operating lease with a customer results in the recognition of lease income on a straight-line basis, while the underlying leased asset remains on the lessor's balance sheet and continues to depreciate. The breakout of lease revenues and fees, net of lessor bad debt expense, that ties to the consolidated statements of operations is shown below:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2024 | 2023 | 2024 | 2023 |
| Lease billings and accruals | $ 36,381,080 | $ 31,266,666 | $ 106,352,849 | $ 98,023,406 |
| Provision for doubtful accounts | (8,083,009) | (10,038,122) | (25,373,485) | (32,123,950) |
| Gain on sale of lease receivables | 15,791 | (146,345) | 77,225 | 2,803,745 |
| Lease placement collections | 50,328 | - | 215,384 | - |
| Lease revenues and fees | $ 28,364,190 | $ 21,082,199 | $ 81,271,973 | $ 68,703,201 |

**Deferred Debt Issuance Costs -** Debt issuance costs incurred in conjunction with the Credit Agreement entered into on March 6, 2015 and subsequent amendments are offset against the outstanding balance of the loan payable and are amortized using the straight-line method over the remaining term of the related debt, which approximates the effective interest method. Amortization, which is included in interest expense, was $190,388 and $451,555 for the three and nine months ended September 30, 2024, respectively, and $70,368 and $211,104 for the three and nine months ended September 30, 2023, respectively.

Debt issuance costs incurred in conjunction with the subordinated Promissory Notes to related parties 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 $114,698 and $344,093 for the three and nine months ended September 30, 2024, respectively, and $114,698 and $152,930 for the three and nine months ended September 30, 2023, respectively.

Debt issuance costs incurred in conjunction with the Basepoint Credit Agreement entered into on June 7, 2023 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 $9,617 and $28,851 for the three and nine months ended September 30, 2024, respectively, was $9,617 and $12,823 for the three and nine months ended September 30, 2023, 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 and of assets acquired in connection with Revolution Transaction (See Note 14). The patent is 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 ten years.

In the Revolution Transaction, the Company identified intangible assets for the franchisee contract-based agreements, the related non-compete agreements, the Liberty Loan brand, the non-contractual customer relationships associated with the corporate locations and the list of previous customers. The franchisee contract-based agreements relate to the assignment of agreements with Liberty Tax franchisees in which their locations and staff are used to assist in the origination and servicing of a loan portfolio in exchange for a share of the net revenue. In addition, there is non-compete embedded in these agreements. The Liberty Loan brand intangible asset relates to the value associated with the established brands acquired in the transaction that would otherwise need to be licensed. The non-contractual customer relationship intangible asset is the value of the customer relationships for the corporate stores acquired in the transaction. The customer list intangible asset relates to the value of valuable customers information that will be used to market additional products. The franchisee contract-based agreement, the Liberty Loan brand and the non-compete intangible assets are amortized on a straight-line basis over the expected useful life of the assets of ten years. The non-contractual customer relationship intangible asset is amortized on a straight-line basis over a five-year estimated useful life. The customer list is amortized on a straight-line basis over a three-year estimated useful life.

For intangible assets with finite lives, tests for impairment must be performed if conditions exist that indicate the carrying amount may not be recoverable. Intangible assets amortization expense was $442,427 and $1,327,187 for the three and nine months ended September 30, 2024, respectively, and $442,636 and $1,328,754 for the three and nine months ended September 30, 2023, respectively.

**Property and Equipment -** Property and equipment are recorded at cost less accumulated depreciation. Depreciation is recognized over the estimated useful lives of the respective assets on a straight-line basis, ranging from 2 to 7 years. Repairs and maintenance expenditures are expensed as incurred, unless such expenses extend the useful life of the asset, in which case they are capitalized. Depreciation and amortization expense for property and equipment was $1,605,989 and $4,703,053 for the three and nine months ended September 30, 2024, respectively, and $1,271,216 and $3,641,634 for the three and nine months ended September 30, 2023, respectively.

**Software Costs –** Costs related to developing or obtaining internal-use software incurred during the preliminary project and post-implementation stages of an internal use software project are expensed as incurred and certain costs incurred in the project's application development stage are capitalized as property and equipment. The Company expenses costs related to the planning and operating stages of a website. Costs associated with minor enhancements and maintenance for the website are included in expenses as incurred. Direct costs incurred in the website's development stage are capitalized as property and equipment. Capitalized software costs amounted to $1,408,891 and $3,914,161 for the three and nine months ended September 30, 2024, respectively, and $1,231,454 and $3,754,292 for the three and nine months ended September 30, 2023, respectively. Capitalized software amortization expense was $1,250,175 and $3,601,341 for the three and nine months ended September 30, 2024, respectively, and $1,011,106 and $2,881,511 for the three and nine months ended September 30, 2023, respectively.

**Data Costs** - The Company buys data from different vendors upon receipt of an application. The data costs directly used to make underwriting decisions are expensed as incurred. Certain data costs that are probable to provide future economic benefit to the Company are capitalized and amortized on a straight-line basis over their estimated useful lives. The probability to provide future economic benefit of the data cost assets is estimated based upon future usage of the information in different areas and products of the Company.

Capitalized data costs amounted to $391,431 and $1,335,743 for the three and nine months ended September 30, 2024, respectively, and $227,393 and $570,820 for the three and nine months ended September 30, 2023, respectively. Capitalized data costs amortization expense was $387,941 and $1,104,333 for the three and nine months ended September 30, 2024, respectively, and $250,376 and $704,543 for the three and nine months ended September 30, 2023, respectively.

Capitalized data costs net of its amortization are included in the condensed consolidated balance sheets in Other assets, net.

**Impairment of Long-Lived Assets** – We evaluate all long-lived assets, including intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of the related assets may not be recoverable by the undiscounted net cash flow they will generate. Impairment is recognized when the carrying amounts of such assets exceed their fair value. For the three and nine months ended September 30, 2024 there were no impairments.

**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 9). 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 net income. Loss attributable to common shareholders is computed by increasing net loss by such dividends. Where the Company has a net loss, as the participating Series 1 Convertible Preferred Stock has no contractual obligation to share in the losses of the Company, there is no loss allocation between common stock and Series 1 Convertible Preferred Stock.

Basic earnings per common share is computed by dividing net income/(loss) 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 during the period.

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, performance share units and warrants. The dilutive effect of Series 2 Convertible Preferred Stock is computed using the if-converted method. The dilutive effect of options, performance share units and warrants are 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, performance share units and warrants will have a dilutive effect when the average price of common stock during the period exceeds the exercise price of options, performance share units 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.

The following table reflects the number of common shares issuable upon conversion or exercise.

| | **September 30,** | |
|---|---|---|
| | **2024** | **2023** |
| Series 1 Convertible Preferred Stock | 225,231 | 225,231 |
| Series 2 Convertible Preferred Stock | 5,845,695 | 5,845,695 |
| Common Stock Options | 5,073,447 | 5,435,572 |
| Common Stock Warrants | 2,255,184 | 2,255,184 |
| Performance Share Units | 937,499 | 1,250,000 |
| | 14,337,056 | 15,011,682 |

The following table sets forth the computation of basic and diluted earnings per common share for the nine months ended September 30, 2024 and 2023:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2024 | 2023 |
| **Numerator** | | |
| Net income/ (loss) | $ 549,147 | $ (4,587,769) |
| Series 2 Convertible Preferred Stock dividends | (3,337,600) | (3,034,182) |
| Net loss attributable to common and Series 1 Convertible Preferred Stock | (2,788,453) | (7,621,951) |
| Net income attributable to Series 1 Convertible Preferred Stock | - | - |
| Series 2 Convertible Preferred Stock dividends attributable to Series 1 Convertible Preferred Stock | - | - |
| Net loss attributable to common shares- Numerator for basic EPS | (2,788,453) | (7,621,951) |
| Effect of dilutive securities: | | |
| Series 2 Convertible Preferred Stock dividends | - | - |
| Net loss attributable to common shares after assumed conversions- Numerator for diluted EPS | $ (2,788,453) | $ (7,621,951) |
| **Denominator** | | |
| Weighted average of common shares outstanding- Denominator for basic EPS | 21,547,702 | 21,740,027 |
| Effect of dilutive securities: | | |
| Series 2 Convertible Preferred Stock | - | - |
| Series 1 Convertible Preferred Stock | - | - |
| Common stock options and performance share units | - | - |
| Common stock warrants | - | - |
| Adjusted weighted average of common shares outstanding and assumed conversions- Denominator diluted EPS | 21,547,702 | 21,740,027 |
| Basic EPS | $ (0.13) | $ (0.35) |
| Diluted EPS | $ (0.13) | $ (0.35) |

The following table sets forth the computation of basic and diluted earnings per common share for the three months ended September 30, 2024 and 2023:

| | Three Months Ended September 30, | |
|---|---|---|
| | 2024 | 2023 |
| **Numerator** | | |
| Net income | $ 2,366,384 | $ 940,101 |
| Series 2 Convertible Preferred Stock dividends | (1,176,402) | (1,069,456) |
| Net income/ (loss) attributable to common and Series 1 Convertible Preferred Stock | 1,189,982 | (129,355) |
| Net income attributable to Series 1 Convertible Preferred Stock | (24,435) | - |
| Series 2 Convertible Preferred Stock dividends attributable to Series 1 Convertible Preferred Stock | 12,147 | - |
| Net income/ (loss) attributable to common shares- Numerator for basic EPS | 1,177,694 | (129,355) |
| Effect of dilutive securities: | | |
| Series 2 Convertible Preferred Stock dividends | - | - |
| Net income/ (loss) attributable to common shares after assumed conversions – Numerator for diluted EPS | $ 1,177,694 | $ (129,355) |
| **Denominator** | | |
| Weighted average of common shares outstanding- Denominator for basic EPS | 21,586,935 | 21,716,852 |
| Effect of dilutive securities | | |
| Series 2 Convertible Preferred Stock | - | - |
| Series 1 Convertible Preferred Stock | 225,231 | - |
| Common stock options and performance share units | 419,622 | - |
| Common stock warrants | - | - |
| Adjusted weighted average of common shares outstanding and assumed conversions- Denominator for diluted EPS | 22,231,788 | 21,716,852 |
| Basic EPS | $ 0.05 | $ (0.01) |
| Diluted EPS | $ 0.05 | $ (0.01) |

**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 a compensation expense in the financial statements as services are performed.

Compensation expense for stock options is determined by reference to the fair value of an award on the date of grant and is recognized 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.

Compensation expense for performance share units is recognized on an accelerated basis over the vesting period based on the Company's projected assessment of the level of performance that will be achieved and earned. The fair value of performance share units is based on the fair market value of the Company's common stock on the date of grant (see Note 10).

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

The Company utilizes the fair value option on its entire loan receivables portfolio purchased from its bank partner and for the portfolio of loans directly acquired in the state licensed model.

**Fair Value Measurements-** The Company uses a hierarchical framework that prioritizes and ranks the market observability of inputs used in its fair value measurements. Market price observability is affected by a number of factors, including the type of asset or liability and the characteristics specific to the asset or liability being measured. Assets and liabilities with readily available, active, quoted market prices or for which fair value can be measured from actively quoted prices generally are deemed to have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. The Company classifies the inputs used to measure fair value into one of three levels as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than Level 1, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model-derived prices whose inputs are observable or whose significant value drivers are observable.
- Level 3: Unobservable inputs for the asset or liability measured.

Observable inputs are based on market data obtained from independent sources, while unobservable inputs are based on the Company's market assumptions. Unobservable inputs require significant management judgment or estimation.

The Company's financial instruments that are measured at fair value on a recurring basis as of September 30, 2024 and December 31, 2023 is as follows:

| | Fair Value Measurement Using | | | | |
|---|---|---|---|---|---|
| **Financial instruments – As of September 30, 2024 (1)** | **Level 1** | **Level 2** | **Level 3** | **Carrying Amount** | **Unpaid Principal Balance** |
| Loan receivables at fair value | $ - | $ - | $ 47,116,140 | $ 47,116,140 | $ 85,301,661 |

| | Fair Value Measurement Using | | | | |
|---|---|---|---|---|---|
| **Financial instruments – As of December 31, 2023 (1)** | **Level 1** | **Level 2** | **Level 3** | **Carrying Amount** | **Unpaid Principal Balance** |
| Loan receivables at fair value | $ - | $ - | $ 35,794,290 | $ 35,794,290 | $ 48,076,705 |

(1) For cash, lease receivable, and accounts payable the carrying amount is a reasonable estimate of fair value due to their short-term nature. The carrying value of loans payable under the Credit Agreement, the carrying value of loans payable under the Basepoint Credit Agreement, and the carrying value of promissory notes to related parties approximates fair value based upon their interest rates, which approximate current market interest rates.

The Company primarily estimates the fair value of its loan receivables portfolio using discounted cash flow models. The models use inputs, such as estimated losses, servicing costs and discount rates, that are unobservable but reflect the Company's best estimates of the assumptions a market participant would use to calculate fair value. Certain unobservable inputs may, in isolation, have either a directionally consistent or opposite impact on the fair value of the financial instrument for a given change in that input. An increase to the net loss rate, servicing cost, or discount rate would decrease the fair value of the Company's loan receivables. When multiple inputs are used within the valuation techniques for loan receivables, a change in one input in a certain direction may be offset by an opposite change from another input.

The Company estimates the fair value of the promissory note related to acquisition using the discounted cash flow model. The model uses inputs including estimated cash flows and a discount rate.

The following describes the primary inputs to the discounted cash flow models that require significant judgement:

- Estimated losses are estimates of the principal payments that will not be repaid over the life of the loans, net of the expected principal recoveries on charged-off receivables. FlexShopper systems monitor collections and portfolio performance data that are used to continually refine the analytical models and statistical measures used in making marketing and underwriting decisions. Leveraging the data at the core of the business, the Company utilizes the models to estimate lifetime credit losses for loan receivables. Inputs to the models include expected cash flows, historical and current performance, and behavioral information. Management may also incorporate discretionary adjustments based on the Company's expectations of future credit performance.

- Servicing costs – Servicing costs applied to the expected cash flows of the portfolio reflect the Company estimate of the amount investors would incur to service the underlying assets for the remainder of their lives. Servicing costs are derived from the Company internal analysis of our cost structure considering the characteristics of the receivables and have been benchmarked against observable information on comparable assets in the marketplace.

- Discount rates – the discount rates utilized in the cash flow analyses reflect the Company estimates of the rates of return that investors would require when investing in financial instruments with similar risk and return characteristics.

For Level 3 assets carried at fair value measured on a recurring basis using significant unobservable inputs, the following table presents a reconciliation of the beginning and ending balances for the nine months ended September 30, 2024 and the year ended December 31, 2023:

| | Nine Months Ended September 30, 2024 | Year Ended December 31, 2023 |
|---|---|---|
| Beginning balance | $ 35,794,290 | $ 32,932,504 |
| Purchases of loan participation | 1,058,998 | 389,949 |
| Obligation of loan participation | - | (12,931) |
| Loan originations | 39,193,233 | 57,554,746 |
| Interest and fees[1] | 8,527,443 | 14,801,188 |
| Collections | (47,564,200) | (80,089,020) |
| Net charge off [1] | (2,833,156) | (11,041,155) |
| Net change in fair value[1] | 12,939,532 | 21,259,009 |
| Ending balance | $ 47,116,140 | $ 35,794,290 |

(1) Included in loan revenues and fees, net of changes in fair value in the condensed consolidated statements of operations

For Level 3 assets carried at fair value measured on a recurring basis using significant unobservable inputs, the following table presents quantitative information about the inputs used in the fair value measurement as of September 30, 2024 and December 31, 2023:

| | September 30, 2024 | | | December 31, 2023 | | |
|---|---|---|---|---|---|---|
| | Minimum | Maximum | Weighted Average[2] | Minimum | Maximum | Weighted Average |
| Estimated losses[1] | 0 % | 93.9 % | 60.6 % | 0 % | 92.5 % | 28.9 % |
| Servicing costs | - | - | 4.1 % | - | - | 4.7 % |
| Discount rate | - | - | 20.3 % | - | - | 20.1 % |

(1) Figure disclosed as a percentage of outstanding principal balance.
(2) Unobservable inputs were weighted by outstanding principal balance, which are grouped by origination channel.

Other relevant data as of September 30, 2024 and December 31, 2023 concerning loan receivables at fair value are as follows:

| | September 30, 2024 | December 31, 2023 |
|---|---|---|
| Aggregate fair value of loan receivables that are 90 days or more past due | $ 39,728,088 | $ 27,828,083 |
| Unpaid principal balance of loan receivables that are 90 days or more past due | $ 77,354,984 | $ 29,304,704 |
| Aggregate fair value of loan receivables in non-accrual status | $ 39,906,943 | $ 27,764,926 |

**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, 2024, 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.

**4. LEASES**

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

**Lease Commitments**

In January 2019, FlexShopper entered into a 108-month lease with an option for one additional five-year term for 21,622 square feet of office space in Boca Raton, FL to accommodate FlexShopper's business and its employees. The monthly rent for this space is approximately 31,500 with annual three percent increases throughout the initial 108-month lease term beginning on the anniversary of the commencement date, which was September 18, 2019.

In September 2021, FlexShopper entered into a 12-month lease for an office space for approximately 18 people at the Battery at SunTrust Park at Georgia, Atlanta mainly to expand the sales team. This lease was renewed for another twelve-month period with a monthly rent of approximately $8,800. This lease is accounted for under the practical expedient for leases with initial terms for 12 months or less, and as such no related right of use asset or liability was recorded.

As part of the Revolution Transaction (See Note 14), 22 storefront lease agreements were acquired by FlexShopper. Some of those stores were closed or transferred to franchisees after the Revolution Transaction. As of September 30, 2024, 34 storefront lease agreements belong to FlexShopper. The stores are located in Alabama, Idaho, Michigan, Mississippi, Nevada, and Oklahoma and are used to offer finance products to customers. The monthly average rent for these stores is approximately $1,800 per month. These leases are accounted for under the practical expedient for leases with initial terms for 12 months or less, and as such no related right of use asset or liability was recorded.

The Company determines if an arrangement is a lease at inception. Operating lease assets and liabilities are included in the Company's condensed consolidated balance sheets within the Right of use asset, net, Lease liability- current portion and Lease liabilities, net of current portion.

Supplemental balance sheet information related to leases is as follows:

| | Balance Sheet Classification | September 30, 2024 | December 31, 2023 |
|---|---|---|---|
| Assets | | | |
| Operating Lease Asset | Right of use asset, net | $ 1,093,551 | $ 1,233,538 |
| Finance Lease Asset | Right of use asset, net | - | 3,472 |
| Total Lease Assets | | $ 1,093,551 | $ 1,237,010 |
| | | | |
| Liabilities | | | |
| Operating Lease Liability – current portion | Current Lease Liabilities | $ 275,029 | $ 240,444 |
| Finance Lease Liability – current portion | Current Lease Liabilities | — | 4,608 |
| Operating Lease Liability – net of current portion | Long Term Lease Liabilities | 1,111,740 | 1,321,578 |
| Total Lease Liabilities | | $ 1,386,769 | $ 1,566,630 |

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

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

| | Weighted Average Discount Rate | Weighted Average Remaining Lease Term (in years) |
|---|---|---|
| Operating Leases | 13.03 % | 4.0 |
| Finance Leases | 13.39 % | 0 |

Operating lease expense is recognized on a straight-line basis over the lease term within operating expenses in the Company's condensed consolidated statements of operations. Finance lease expense is recognized over the lease term within interest expense and amortization in the Company's condensed consolidated statements of operations. The Company's total operating and finance lease expense all relate to lease costs amounted to $94,915 and $289,426 for the three and nine months ended September 30, 2024, respectively, and $96,453 and $290,964 for the three and nine months ended September 30, 2023, respectively.

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2024 | 2023 |
| Cash payments for operating leases | $ 320,471 | $ 311,137 |
| Cash payments for finance leases | 4,782 | 7,308 |

Below is a summary of undiscounted operating lease liabilities as of September 30, 2024. The table also includes a reconciliation of the future undiscounted cash flows to the present value of the operating lease liabilities included in the condensed consolidated balance sheet.

| | Operating Leases |
|---|---|
| 2024 | $ 109,663 |
| 2025 | 443,038 |
| 2026 | 456,330 |
| 2027 | 470,019 |
| 2028 and thereafter | 303,574 |
| Total undiscounted cash flows | 1,782,624 |
| Less: interest | (395,855) |
| Present value of lease liabilities | $ 1,386,768 |

**5. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

| | Estimated Useful Lives | September 30, 2024 | December 31, 2023 |
|---|---|---|---|
| Furniture, fixtures and vehicle | 2-5 years | $ 400,131 | $ 395,867 |
| Website and internal use software | 3 years | 29,700,480 | 25,786,319 |
| Computers and software | 3-7 years | 5,734,076 | 4,763,115 |
| | | 35,834,687 | 30,945,301 |
| Less: accumulated depreciation and amortization | | (26,339,495) | (21,636,442) |
| | | $ 9,495,192 | $ 9,308,859 |

Depreciation and amortization expense for property and equipment was $1,605,989 and $4,703,053 for the three and nine months ended September 30, 2024, respectively, and $1,271,216 and $3,641,634 for the three and nine months ended September 30, 2023, respectively.

**6. INTANGIBLE ASSETS**

The following table provides a summary of our intangible assets:

| | September 30, 2024 | | | |
|---|---|---|---|---|
| | Estimated Useful Life | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Patent | 10 years | $ 30,760 | $ (30,760) | $ - |
| Franchisee contract-based agreements | 10 years | 12,744,367 | (2,336,437) | 10,407,930 |
| Liberty Loan brand | 10 years | 340,218 | (62,296) | 277,922 |
| Non-compete agreements | 10 years | 86,113 | (15,990) | 70,123 |
| Non contractual customer relationships | 5 years | 1,952,371 | (716,119) | 1,236,252 |
| Customer list | 3 years | 184,825 | (112,934) | 71,891 |
| | | $ 15,338,654 | $ (3,274,536) | $ 12,064,118 |

| | December 31, 2023 | | | |
|---|---|---|---|---|
| | Estimated Useful Life | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Patent | 10 years | $ 30,760 | $ (30,760) | $ - |
| Franchisee contract-based agreements | 10 years | 12,744,367 | (1,380,638) | 11,363,729 |
| Liberty Loan brand | 10 years | 340,218 | (36,855) | 303,363 |
| Non-compete agreements | 10 years | 86,113 | (9,334) | 76,779 |
| Non contractual customer relationships | 5 years | 1,952,371 | (423,020) | 1,529,351 |
| Customer list | 3 years | 184,825 | (66,742) | 118,083 |
| | | $ 15,338,654 | $ (1,947,349) | $ 13,391,305 |

Depreciation and amortization expense for intangible assets was $442,427 and $1,327,187 for the three and nine months ended September 30, 2024, respectively, and $442,636 and $1,328,754 for the three and nine months ended September 30, 2023, respectively.

As of September 30, 2024, future estimated amortization expense related to identifiable intangible assets over the next five years is set forth in the following table:

| | Amortization Expense |
|---|---|
| 2024 (three months remaining) | 442,290 |
| 2025 | 1,764,026 |
| 2026 | 1,707,552 |
| 2027 | 1,675,012 |
| 2028 | 1,317,072 |
| Total | $ 6,905,952 |

**7. PROMISSORY NOTES-RELATED PARTIES**

**122 Partners Note-** On January 25, 2019, FlexShopper, LLC (the "Promissory Note Borrower") entered into a subordinated debt financing letter agreement with 122 Partners, LLC, as lender, pursuant to which the Promissory Note Borrower issued a subordinated promissory note to 122 Partners, LLC (the "122 Partners Note") in the principal amount of $1,000,000. H. Russell Heiser, Jr., FlexShopper's Chief Executive Officer, is a member of 122 Partners, LLC. On March 30, 2023, the Promissory Note Borrower executed a fourth amendment to the 122 Partners Note such that the maturity date of the 122 Partners Note was extended from April 1, 2023 to October 1, 2023. On September 6, 2023, the Promissory Note Borrower paid all the principal and interest outstanding as of that date.

Interest paid for the 122 Partner Note was $58,020 and $163,183 for the three and nine months ended September 30, 2023, respectively.

Interest expensed for the 122 Partner Note $40,335 and $145,357 for the three and nine months ended September 30, 2023, respectively.

**NRNS Note-** FlexShopper LLC (the "Promissory Note Borrower") previously entered into letter agreements with NRNS Capital Holdings LLC ("NRNS"), the manager of which is the Chairman of the Company's Board of Directors, pursuant to which the Promissory Note Borrower issued subordinated promissory notes to NRNS (the "NRNS Note") in the total principal amount of $3,750,000. Payment of principal and accrued interest under the NRNS Note was due and payable by the Promissory Note Borrower on June 30, 2021 and the Promissory Note Borrower can prepay principal and interest at any time without penalty. At September 30, 2024, amounts outstanding under the NRNS Note bear interest at a rate of 19.21%. Obligations under the NRNS Note are subordinated to obligations under the Credit Agreement. The NRNS Note is subject to customary representations and warranties and events of default. If an event of default occurs and is continuing, the Promissory Note Borrower may be required to repay all amounts outstanding under the NRNS Note. Obligations under the NRNS Note are secured by substantially all of the Promissory Note Borrower's assets, subject to rights of the lenders under the Credit Agreement. On March 22, 2021, the Promissory Note Borrower executed an amendment to the NRNS Note such that the maturity date was extended to April 1, 2022. On February 2, 2022, the Promissory Note Borrower executed another amendment to the NRNS Note. This last amendment extended the maturity date from April 1, 2022 to July 1, 2024 and increased the credit commitment from $3,750,000 to $11,000,000.

On June 29, 2023, the Company, the Promissory Note Borrower, NRNS, Mr. Heiser and PITA Holdings, LLC (“PITA”) entered into an Amendment to Subordinated Debt and Warrants to Purchase Common Stock (the “Amendment”), pursuant to which, among other things, the parties agreed to extend the maturity date of the NRNS Note from July 1, 2024 to July 1, 2025. In order to induce NRNS to enter into the Amendment, the Company extended the expiration date of certain warrants (See Note 9). The cost of the warrant modification was $917,581 and was recorded as a deferred debt cost of NRNS note. No other changes were made to such NRNS Note.

Interest paid for the NRNS Note was $534,030 and $1,664,568 for the three and nine months ended September 30, 2024, respectively, and $585,334 and $1,715,838 for the three and nine months ended September 30, 2023, respectively.

Interest expensed for the NRNS Note was $532,782 and $1,638,792 for the three and nine months ended September 30, 2024, respectively, and $587,230 and $1,716,217 for the three and nine months ended September 30, 2023, respectively.

Amounts payable under the promissory notes are as follows:

| | Debt Principal | Interest |
|---|---|---|
| 2024 | $ - | $ 172,848 |
| 2025 | $ 10,750,000 | $ - |

**8. LOAN PAYABLE UNDER CREDIT AGREEMENT**

On March 6, 2015, FlexShopper, through a wholly-owned subsidiary (“Borrower”), entered into a credit agreement (as amended from time-to-time, the “Credit Agreement”) with Wells Fargo Bank, National Association as paying agent, various lenders from time to time party thereto and WE 2014-1, LLC, an affiliate of Waterfall Asset Management, LLC, as administrative agent and lender (“Lender”). On September 2022, WE 2014-1, LLC assigned 100% of its Commitments and all Loans to Powerscourt Investments 32, LP, an affiliate of Waterfall Asset Management, LLC. The interest rate charged on amounts borrowed was SOFR plus 11% per annum. The Commitment Termination Date was April 1, 2024.

On March 27, 2024, the Company refinanced all the obligations under the Credit Agreement owed to the Administrative Agent and the Lenders, and all liens held by any of the Lenders, or the Administrative Agent were discharged and released. The Administrative Agent, the Lenders and the Company terminated the Credit Agreement.

On March 27, 2024, FlexShopper, through a wholly-owned subsidiary (“Borrower”), entered into a new credit agreement (the “2024 Credit Agreement”) with Computershare Trust Company, National Association as paying agent, various lenders from time to time party thereto and Powerscourt Investment 50, LP, an affiliate of Waterfall Asset Management, LLC, as administrative agent and lender (“Lender”). The Borrower is permitted to borrow funds under the 2024 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 2024 Credit Agreement) less certain deductions described in the 2024 Credit Agreement. Under the terms of the 2024 Credit Agreement, subject to the satisfaction of certain conditions, the Borrower may borrow up to $150,000,000 from the Lender until the Commitment Termination Date and must repay all borrowed amounts one year thereafter, on the date that is 12 months following the Commitment Termination Date (unless such amounts become due or payable on an earlier date pursuant to the terms of the Credit Agreement). The Commitment Termination Date is April 1, 2026. The Lender was granted a security interest in certain leases and loans as collateral under this Agreement. The interest rate charged on amounts borrowed is SOFR plus 9% per annum. The Company will pay the Lender a fee in an amount equal to 1% of the aggregate Commitments as of March 27, 2024, payable in 12 monthly installments on each interest payment date commencing April 2024. At September 30, 2024, amounts borrowed bear interest at 14.21%.

The 2024 Credit Agreement provides that FlexShopper may not incur additional indebtedness (other than expressly permitted indebtedness) without the permission of the Lender, and also prohibits payments of cash dividends on common stock. Additionally, the 2024 Credit Agreement includes covenants requiring FlexShopper to maintain a minimum amount of Equity Book Value, Liquidity and Cash, and maintain a certain ratio of Consolidated Total Debt to Equity Book Value (each capitalized term, as defined in the 2024 Credit Agreement). Upon a Permitted Change of Control, FlexShopper must refinance the debt under the 2024 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, 2024, follows:

| | September 30, 2024 | |
|---|---|---|
| | Required Covenant | Actual Position |
| Equity Book Value not less than | $ 16,452,247 | $ 29,808,572 |
| Liquidity greater than | 4,000,000 | 10,513,666 |
| Cash greater than | 3,000,000 | 7,330,542 |
| Consolidated Total Debt to Equity Book Value ratio not to exceed | 5.25 | 4.78 |

The 2024 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 2024 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 2024 Credit Agreement and related documents (including certain financial and expense covenants), deficiencies in the borrowing base, certain judgments against FlexShopper and bankruptcy events.

The Company borrowed under the Credit Agreement $12,600,000 and $34,961,690 for the three and nine months ended September 30, 2024, respectively, and $5,050,000 and $7,800,000 for the three and nine months ended September 30, 2023, respectively. The Company repaid under the Credit Agreement and $0 and $0 for the three and nine months ended September 30, 2024, respectively, and $0 and $2,795,000 for the three and nine months ended September 30, 2023, respectively.

Interest expense incurred under the Credit Agreement amounted to $4,573,654 and $12,996,319 for the three and nine months ended September 30, 2024, respectively, and $3,503,486 and $10,115,009 for the three and nine months ended September 30, 2023, respectively. The outstanding balance under the Credit Agreement was $131,416,690 as of September 30, 2024 and was $96,455,000 as of December 31, 2023. Such amount is presented in the condensed consolidated balance sheets net of unamortized issuance costs of $1,142,325 and $70,780 as of September 30, 2024 and December 31, 2023, respectively. 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 April 1, 2026, or from reductions in the borrowing base. The Company must repay all borrowed amounts one year after the Commitment Termination Date. Accordingly, all principal is shown as a non-current liability at September 30, 2024.

**9. CAPITAL STRUCTURE**

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

**Preferred Stock**

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

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

  As of September 30, 2024, each share of Series 1 Convertible Preferred Stock was convertible into 1.32230 shares of the Company's common stock, subject to certain anti-dilution rights. The holders of the Series 1 Convertible Preferred Stock have the option to convert the shares to common stock at any time. Upon conversion, all accumulated and unpaid dividends, if any, will be paid as additional shares of common stock. The holders of Series 1 Convertible Preferred Stock have the same dividend rights as holders of common stock, as if the Series 1 Convertible Preferred Stock had been converted to common stock.

  As of September 30, 2024, there were 170,332 shares of Series 1 Convertible Preferred Stock outstanding, which were convertible into 225,231 shares of common stock.

- Series 2 Convertible Preferred Stock – The Company sold to B2 FIE V LLC (the "Investor"), an entity affiliated with Pacific Investment Management Company LLC, 20,000 shares of Series 2 Convertible Preferred Stock

("Series 2 Preferred Stock") for gross proceeds of $20.0 million. The Company sold an additional 1,952 shares of Series 2 Preferred Stock to a different investor for gross proceeds of $1.95 million at a subsequent closing.

The Series 2 Preferred Shares were sold for $1,000 per share (the "Stated Value") and accrue dividends on the Stated Value at an annual rate of 10% compounded annually. Cumulative accrued dividends as of September 30, 2024 totaled $26,525,613. As of September 30, 2024, each Series 2 Preferred Share was convertible into approximately 266 shares of common stock; however, the conversion rate is subject to further increase pursuant to a weighted average anti-dilution provision. The holders of the Series 2 Preferred Stock have the option to convert such shares into shares of common stock and have the right to vote with holders of common stock on an as-converted basis. If the average closing price during any 45-day consecutive trading day period or change of control transaction values the common stock at a price equal to or greater than $23.00 per share, then conversion shall be automatic. Upon a Liquidation Event or Deemed Liquidation Event (each as defined), holders of Series 2 Preferred Stock shall be entitled to receive out of the assets of the Company prior to and in preference to the common stock and Series 1 Convertible Preferred Stock an amount equal to the greater of (1) the Stated Value, plus any accrued and unpaid dividends thereon, and (2) the amount per share as would have been payable had all shares of Series 2 Preferred Stock been converted to common stock immediately before the Liquidation Event or Deemed Liquidation Event.

As the dividends for the Series 2 Preferred Shares have not been declared by the Company's Board of Directors, there is no dividends accrual reflected in the Company's Consolidated Financial Statement. The Series 2 Preferred Shares dividends is reflected on the Consolidated Statement of Operations for purposes of determining the net income attributable to common and Series 1 Convertible Preferred shareholders.

**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."

See subsequent events related to Common Stock on Note 18.

**Warrants**

In September 2018, the Company issued warrants exercisable for an aggregate 1,055,184 shares of common stock at an exercise price of $1.25 per warrant to Mr. Heiser and NRNS in connection with partial conversions of their promissory notes (the "Conversion Warrants"). The original expiration date of these warrants was September 28, 2023 (and extended as described below).

From January 2019 to August 2021, the Company issued to PITA Holdings, LLC ("PITA") Common Stock Purchase Warrants (the "Consulting Warrants") to purchase up to an aggregate of 1,200,000 shares of the Company's common stock in connection with that certain Consulting Agreement, dated as of February 19, 2019 (as may be amended from time to time), between the Company and XLR8 Capital Partners LLC ("XLR8").

PITA, NRNS and XLR8 are affiliates of the Company.

On June 29, 2023, the Company, FlexShopper, LLC, NRNS, Mr. Heiser and PITA entered into an Amendment to Subordinated Debt and Warrants to Purchase Common Stock (the "Amendment"), pursuant to which, among other things, the parties agreed to extend the maturity date of the NRNS Note from July 1, 2024 to July 1, 2025. In order to induce NRNS to enter into the Amendment, the expiration date of the Conversion Warrants and the expiration date date of 840,000 of the Consulting Warrants was extended 30 months from the original expiration date. The cost of the warrant modification was $917,581 and was recorded as a deferred debt cost of NRNS note.

There was no expense related to warrants during the three and nine months ended September 30, 2024, and the expense related to warrants was $917,581 and $917,581 for the three and nine months ended September 30, 2023, respectively.

The following table summarizes information about outstanding stock warrants as of September 30, 2024 and December 31, 2023, all of which are exercisable:

| Exercise Price | | Common Stock Warrants Outstanding | Weighted Average Remaining Contractual Life | |
|---|---|---|---|---|
| | | | September 30, 2024 | Dec 31, 2023 |
| $ | 1.25 | 1,055,184 | 1 year | 2 years |
| $ | 1.25 | 160,000 | 1 year | 2 years |
| $ | 1.34 | 40,000 | 1 year | 2 years |
| $ | 1.40 | 40,000 | 1 year | 2 years |
| $ | 1.54 | 40,000 | 1 year | 2 years |
| $ | 1.62 | 40,000 | 1 year | 2 years |
| $ | 1.68 | 40,000 | 1 year | 2 years |
| $ | 1.69 | 40,000 | 1 year | 2 years |
| $ | 1.74 | 40,000 | 1 year | 2 years |
| $ | 1.76 | 40,000 | 1 year | 2 years |
| $ | 1.91 | 40,000 | 1 year | 2 years |
| $ | 1.95 | 40,000 | 1 year | 2 years |
| $ | 2.00 | 40,000 | 1 year | 2 years |
| $ | 2.01 | 40,000 | 1 year | 2 years |
| $ | 2.08 | 40,000 | 1 year | 2 years |
| $ | 2.45 | 40,000 | 1 year | 2 years |
| $ | 2.53 | 40,000 | 1 year | 2 years |
| $ | 2.57 | 40,000 | 1 year | 2 years |
| $ | 2.70 | 40,000 | 1 years | 2 years |
| $ | 2.78 | 40,000 | 1 year | 2 years |
| $ | 2.79 | 40,000 | 1 years | 2 years |
| $ | 2.89 | 40,000 | 3 years | 4 years |
| $ | 2.93 | 40,000 | 1 year | 2 years |
| $ | 2.97 | 40,000 | 1 years | 2 years |
| $ | 3.09 | 40,000 | 2 years | 3 years |
| $ | 3.17 | 40,000 | 3 years | 4 years |
| $ | 3.19 | 40,000 | 1 years | 2 years |
| $ | 3.27 | 40,000 | 1 years | 2 years |
| | | 2,255,184 | | |

**10. EQUITY COMPENSATION PLANS**

In April 2018, the Company adopted the FlexShopper, Inc. 2018 Omnibus Equity Compensation Plan (the “2018 Plan”). The 2018 Plan replaced the Prior Plans. No new awards will be granted under the Prior Plans; however, awards outstanding under the Prior Plans upon approval of the 2018 Plan remain subject to and will be settled with shares under the applicable Prior Plan.

Grants under the 2018 Plan and the Prior Plans consist of incentive stock options, non-qualified stock options, stock appreciation rights, restricted shares, restricted stock units, 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. As September 30, 2024, approximately 1,474,461 shares remained available for issuance under the 2018 Plan.

Stock-based compensation expense included the following components:

| | Three Months Ended September 30, 2024 | Three Months Ended September 30, 2023 | Nine Months Ended September 30, 2024 | Nine Months Ended September 30, 2023 |
|---|---|---|---|---|
| Stock options | $ 81,695 | $ 242,180 | $ 242,602 | $ 1,047,324 |
| Performance share units | 75,227 | 229,639 | 286,318 | 289,044 |
| Total stock-based compensation | $ 156,922 | $ 471,819 | $ 528,920 | $ 1,336,368 |

The fair value of stock-based compensation is recognized as compensation expense over the vesting period. Compensation expense recorded for stock-based compensation in the condensed consolidated statements of operations was $156,922 and $528,920 for the three and nine months ended September 30, 2024, respectively, and $471,819 and $1,336,368 for the three and nine months ended September 30, 2023, respectively. Unrecognized compensation cost related to non-vested options and PSU at September 30, 2024 amounted to $1,033,134, which is expected to be recognized over a weighted average period of 2.19 years.

Stock options:

The fair value of stock options is recognized as compensation expense using the straight-line method over the vesting period. The Company measured the fair value of each stock option award on the date of grant using the Black-Scholes-Merton (BSM). The Company did not grant stock options during the nine months ended September 30, 2024. The weighted average assumptions used for the stock options granted during the nine months ended September 30, 2023 were as follows:

| | Nine Months Ended September 30, 2024 | Nine Months Ended September 30, 2023 |
|---|---|---|
| Exercise price | $ 1.03 | $ 0.80 |
| Expected life | 4 years | 6 years |
| Expected volatility | 69 % | 95 % |
| Dividend yield | 0 % | 0 % |
| Risk-free interest rate | 3.55 % | 3.59 % |

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, 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.

Activity in stock options for the nine month periods ended September 30, 2024 and September 30, 2023 was as follows:

| | Number of options | | Weighted average exercise price | Weighted average contractual term (years) | | Aggregate intrinsic value |
|---|---|---|---|---|---|---|
| Outstanding at January 1, 2024 | 4,452,447 | $ | 1.57 | | $ | 2,152,602 |
| Granted | 677,500 | $ | 1.03 | | | |
| Exercised/Released | - | | | | | |
| Canceled/ Forfeited | (1,500) | | 0.79 | | | 480 |
| Expired | (55,000) | | 8.00 | | | - |
| Outstanding at September 30, 2024 | 5,073,447 | $ | 1.43 | 6.46 | $ | 525,296 |
| Vested and exercisable at September 30, 2024 | 3,660,278 | $ | 1.57 | 6.46 | $ | 393,901 |
| | | | | | | |
| Outstanding at January 1, 2023 | 3,919,228 | $ | 1.97 | | $ | 52,223 |
| Granted | 1,596,567 | | 0.80 | | | 75 |
| Exercised | (1,500) | | 0.79 | | | 345 |
| Canceled/ Forfeited | (1,105,900) | | 1.91 | | | |
| Outstanding at September 30, 2023 | 4,408,395 | $ | 1.56 | 7.56 | $ | 561,402 |
| Vested and exercisable at September 30, 2023 | 3,183,408 | $ | 1.74 | 7.12 | $ | 328,031 |

The weighted average grant date fair value of options granted during the nine month periods ended September 30, 2024 and September 30, 2023 was $0.56 and $0.61 per share, respectively.

Performance Share Units:

On February 10, 2022 and on April 21, 2023, the Compensation Committee of the Board of Directors approved awards of performance share units to certain senior executives of the Company (the “2022 PSU” and the “2023 PSU”, respectively).

For performance share units, which are settled in stock, the number of shares earned is subject to both performance and time-based vesting. For the performance component, the number of shares earned is determined at the end of the periods based upon achievement of specified performance conditions such as the Company’s Adjusted EBITDA. When the performance criteria are met, the award is earned and vests assuming continued employment through the specified service period(s). Shares are issued from the Company’s 2018 Omnibus Equity Compensation Plan upon vesting. The number of 2023 PSU which could potentially be issued ranges from 0 up to a maximum of 1,250,000 of the target awards depending on the specified terms and conditions of the target award.

The fair value of performance share units is based on the fair market value of the Company’s common stock on the date of grant. The compensation expense associated with these awards is amortized on an accelerated basis over the vesting period based on the Company’s projected assessment of the level of performance that will be achieved and earned. In the event the Company determines it is no longer probable that the minimum performance criteria specified in the plan will be achieved, all previously recognized compensation expense is reversed in the period such a determination is made. The 2022 PSU were forfeited in April 2023 as the minimum performance component was not achieved. For the 2023 PSU, the Company determined it was probable that the minimum performance component would be met and accordingly commenced amortization in the quarter ended September 30, 2023. In April 2024, 1,250,000 shares of the 2023 PSU were earned as the performance criteria was met and 312,501 shares were vested.

Activity in performance share units for the nine months ended September 30, 2024 and September 30, 2023 was as follows:

| | Number of performance share units | Weighted average grant date fair value |
|---|---|---|
| Non- vested at January 1, 2024 | 1,250,000 | $ 0.78 |
| Exercised/Released | (312,501) | 0.78 |
| Non- vested at September 30, 2024 | 937,499 | $ 0.78 |
| Non- vested at January 1, 2023 | 790,327 | $ 1.53 |
| Granted | 1,250,000 | 0.78 |
| Forfeited/ unearned | (790,327) | 1.53 |
| Non- vested at September 30, 2023 | 1,250,000 | $ 0.78 |

**11. INCOME TAXES**

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

The Company's effective income tax rate for the nine months ended September 30, 2024 was approximately 28.19%. This was different than the expected federal income tax rate of 21% primarily due to the impact of non-deductible expenses, equity compensation and state income taxes.

The realization of the deferred tax asset as of September 30, 2024 is more likely than not based on the Company's projected taxable income.

**12. CONTINGENCIES AND OTHER UNCERTAINTIES**

**Regulatory inquiries**

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

**Litigation**

The Company is not involved in any current or pending material litigation as a defendant. The Company could be involved in litigation incidental to the operation of the business. The Company intends to vigorously defend all matters in which the Company is named defendants, and, for insurable losses, maintain significant levels of insurance to protect against adverse judgments, claims or assessments that may affect the Company. Although the adequacy of existing insurance coverage of the outcome of any legal proceedings cannot be predicted with certainty, based on the current information available, the Company does not believe the ultimate liability associated with known claims or litigation, if any, in which the Company is involved will materially affect the Company's consolidated financial condition or results of operations.

**Employment agreements**

Certain executive management entered into employment agreements with the Company. The contracts are for a period of three years and renew for three successive one-year terms unless receipt of written notices by the parties. The contracts provide that such management may earn discretionary cash bonuses and equity awards, based on financial performance metrics defined each year by the Compensation Committee of the Company's Board of Directors. Additionally, under certain termination conditions, such contracts provide for severance payments and other benefits.

**13. COMMITMENTS**

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

**14. REVOLUTION TRANSACTION**

On December 3, 2022, Flex Revolution, LLC, a wholly-owned subsidiary of FlexShopper, Inc. (the "Buyer"), closed a transaction ("Revolution Transaction") pursuant to an Asset Purchase Agreement with Revolution Financial, Inc., a provider of consumer loans and credit products (collectively with certain of its subsidiaries, "Revolution"), under which the Company acquired the material net assets of the Revolution business.

In consideration for the sale of the Revolution net assets, the Company issued an adjustable promissory note ("Seller Note") with an initial principal amount of $5,000,000. The Seller Note matures on December 1, 2027, bears interest at 8% per annum and is subject to adjustment based upon the pre-tax net income of the acquired business in 2023. The fair value of the Seller Note as of the acquisition date was $3,421,991.

The Revolution Transaction includes the Buyer's assumption of Revolution's consumer loan portfolio, related cash and its credit facility ("Revolution Credit Facility") as this facility is backed by the portfolio acquired. On June 7, 2023, the Revolution Credit Facility was legally transferred to FlexShopper (See Note 15).

The parties to the Asset Purchase Agreement have each made customary representations and warranties in the Asset Purchase Agreement and have agreed to indemnify each other for breaches of such representations and warranties. The Buyer's primary recourse in the event of a claim is to offset the Seller Note equal to the indemnifiable losses subject to such claim.

The Revolution Transaction has been accounted for as a business combination in accordance with ASC 805, Business Combination. The Company measured the net assets acquired in Revolution Transaction at fair value on the acquisition date.

The fair value of the intangible assets was determined primarily by using discounted cash flow models. The models use inputs including estimated cash flows and a discount rate.

The Company recorded a bargain purchase gain of $14,461,274 related to the Revolution Transaction at acquisition date as the fair value of the net assets acquired exceed the fair value of the purchase price consideration. The Company believes that the most significant reason its management was able to negotiate a bargain purchase was due to the speed with which the seller wanted to close this transaction which resulted in a non-competitive process akin to a forced sale. The strong desire for a prior to year-end closing was for various reasons, including potential credit facility covenant issues and accelerating operating losses after recent regulatory changes.

On December 31, 2023, the promissory note related to acquisition was adjusted based upon the pre-tax loss of the acquired business in 2023 and based on this the Company recognized in the year ended December 31, 2023 a positive net change in fair value of promissory note related to acquisition of $3,678,689.

**15. BASEPOINT CREDIT AGREEMENT**

On June 7, 2023, the Company, through a wholly owned subsidiary, Flex Revolution, LLC (the "New Borrower"), entered into a Joinder Agreement to a credit agreement (the "Basepoint Credit Agreement") with Revolution Financial, Inc. (the "Existing Borrower"), the subsidiary guarantors party thereto, the lenders party thereto, the individual guarantor party and BP Fundco, LLC, as administrative agent.

The Existing Borrower with certain of its subsidiaries (collectively, the "Seller") and Flex Revolution, LLC (the "Buyer") entered into an Asset Purchase Agreement (See Note 14), pursuant to which the Seller agreed to, among other things, transfer substantially all of its assets to the Buyer.

In the Basepoint Credit Agreement, the New Borrower agreed to become a borrower (the "Borrower") and a grantor as applicable under the agreement. The Company is a guarantor of the Basepoint Credit Agreement.

The Basepoint Credit Agreement provides for an up to a $20 million credit facility for the origination of consumer loans. The credit facility is backed by eligible principal balance of eligible consumer receivable of the borrower's portfolio (the "Borrowing Base"). The annual interest rate on loans under the Basepoint Credit Agreement is 13.42%. The principal balance outstanding under the Basepoint Credit Agreement is due on June 7, 2026.

The Basepoint Credit Agreement includes covenants requiring the Borrower and the guarantor to maintain a minimum amount of liquidity that is no less than 5% of the current Borrowing Base and maintain a minimum amount of cash held in the concentration accounts of $200,000. The tangible net worth of the borrower and the guarantor shall not be less than 10% of the current Borrowing Base and the borrower and the guarantor shall maintain a positive consolidated net income. The terms tangible net worth and positive consolidated net income for the purpose of calculating the covenants under the Basepoint Credit Agreement are defined in the agreement. The Company is in compliance with Basepoint Credit Agreement covenants as of September 30, 2024.

The Basepoint 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 Basepoint Credit Agreement, breaches of representations, warranties or certifications made by or on behalf of the borrower in the Basepoint Credit Agreement and related documents (including certain covenants), deficiencies in the Borrowing Base, certain judgments against the borrower and bankruptcy events.

Interest expense incurred under the Basepoint Credit Agreement amounted to $251,456 and $754,957 for the three and nine months ended September 30, 2024, respectively and to $251,456 and $843,470 for the three and nine months ended September 30, 2023, respectively . The outstanding balance under the Basepoint Credit Agreement was $7,412,605 as of September 30, 2024. Such amount is presented in the consolidated balance sheets net of unamortized issuance costs of $64,113 as of September 30, 2024. Interest is payable weekly on the outstanding balance of the amounts borrowed. No principal is expected to be repaid in the next twelve months, or from reductions in the borrowing base. Accordingly, all principal is shown as a non-current liability at September 30, 2024.

**16. EMPLOYEE BENEFIT PLAN**

The Company sponsors an employee retirement savings plan that qualifies under Section 401(k) of the Internal Revenue Code. Participating employees may contribute, but not more than statutory limits. The Company makes nondiscretionary 4% Safe Harbor contributions of participants' eligible earnings who have completed the plan's eligibility requirements. The contributions are made to the plan on behalf of the employees. Total contributions to the plan were $48,811 and $146,627 for the three and nine months ended September 30, 2024, respectively, and $39,939 and $126,701 for the three and nine months ended September 30, 2023, respectively.

**17. SHARE REPURCHASE PROGRAM**

On May 17, 2023, the Board of Directors authorized a share repurchase program to acquire up to $2 million of the Company's common stock. The Company may purchase common stock on the open market, through privately negotiated transactions, or by other means including through the use of trading plans intended to qualify under Rule 10b-18 under the Securities Exchange Act of 1934, as amended, in accordance with applicable securities laws and other restrictions. The timing and total amount of stock repurchases will depend upon business, economic and market conditions, corporate and regulatory requirements, prevailing stock prices, and other considerations. The share repurchase program have a term through May 2025 and may be suspended or discontinued at any time and does not obligate the company to acquire any amount of common stock.

The Company purchased under the share repurchase program 362,793 shares of common stock for a net cost of $396,780 for the nine months ended September 30, 2024.

**18. SUBSEQUENT EVENTS**

**Common Stock**

On October 7, 2024, the Company filed a Certificate of Amendment to the Company's Certificate of Incorporation with the Secretary of State of the State of Delaware to increase the number of authorized shares of the Company's common stock, par value $0.0001 per share, from 40,000,000 shares to 100,000,000 shares. The increase in the number of authorized shares was approved by the Company's stockholders on October 7, 2024.

**Equity Compensation Plan**

On August 27, 2024, the Company Board of Directors approved Amendment No. 5 to the 2018 Omnibus Equity Plan (the "2018 Plan Amendment"), subject to stockholder approval. The 2018 Plan Amendment was approved by the Company's stockholders on October 7, 2024. The 2018 Plan Amendment increased (a) the total number of shares available for issuance under the 2018 Plan by 3,000,000 shares, to a new total of 11,057,000 shares, and (b) the number of shares available for issuance as “incentive stock options,” within the meaning of Internal Revenue Code (the “Code”) Section 422 (“ISOs”), by 3,000,000 shares.

**Preferred Stock Purchase Option Agreement**

On October 25, 2024, the Company entered into a Preferred Stock Purchase Option Agreement granting the Company the right at any time through October 25, 2025 to repurchase and cancel 20,000 shares of its series 2 convertible preferred stock, representing approximately 91% of the shares in such series, at varying purchase prices below the then-current liquidation value of the series 2 convertible preferred stock, ranging from $20,250,000 to $22,500,000, depending on when the Company exercises the option, from B2 FIE V LLC, which acquired the preferred stock in a private placement in June 2016.

Each share of series 2 convertible preferred stock is convertible into 266.2942 shares of the Company’s common stock or an aggregate of 5,325,888 shares of its common stock, based on the series 2 convertible preferred stock issue price of $1,000 per share and conversion rate of $3.76 per share, and accrues dividends through an increase in its liquidation preference at an annual rate equal to 10% of the original series 2 convertible preferred stock issue price per share. The purchase price of the series 2 convertible preferred stock, which was negotiated between the parties, represents approximately 50% of the current liquidation preference of the preferred stock, which was approximately $44.2 million as of September 30, 2024.

The terms of the preferred stock repurchase provide that, if the Company exercises the option and within 12 months following the date of the Preferred Stock Purchase Option Agreement, it completes a liquidity event or a change of control occurs, the Company would be required to make an incremental “true-up” payment to B2 FIE V LLC. This payment would be in an amount equal to the difference between the Company’s share price before the announcement of the liquidity event or change of control and the increased value of the Company’s share price, if any, after announcing the transaction, applied to the number of repurchased preferred shares on an as-if-converted to common stock basis. A discount of 8.3% is applied to this payment every 30-day period following the closing of the preferred stock repurchase. Additionally, assuming the shares of series 2 preferred stock are repurchased, and the Company is awarded monetary damages or a settlement award in connection with its patent infringement lawsuits, the Company would also be required to pay a portion of those proceeds to B2 FIE V LLC. That portion would be determined by the increase in the value of the Company’s share price, if any, after announcing the award as applied to the number of repurchased preferred shares on an as-if-converted to common stock basis, provided that the Company is not required to pay B2 FIE V LLC more than $4.00 per share on any share increase in value or 18% of the award.

**Rights Offering**

On October 28, 2024, the Company filed a registration statement on Form S-1 with the Securities and Exchange Commission for a proposed rights offering in which it plans to distribute to its stockholders non-transferable subscription rights to purchase up to 35,000,000 units. Each unit will consist of one share of common stock and three short-term rights to purchase additional shares of common stock at varying discounted market-based prices.

The Company intends to use the net proceeds of the rights offering to provide funding for the repurchase of over 90% of its series 2 convertible preferred stock, reduce a portion of the outstanding balance under its credit facility, and finance the costs of potential acquisitions of other payment solutions companies. Any remaining proceeds will be used for general corporate purposes.

## 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, 2023. 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, 2023 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**

FlexShopper is a financial technology company that offers payment options to customers.

Since December 2013, we have developed a business that focuses on improving the quality of life of our customers by providing them the opportunity to obtain ownership of high-quality durable products, such as consumer electronics, home appliances, computers (including tablets and wearables), smartphones, tires, jewelry and furniture (including accessories), under affordable payment lease-to-own ("LTO") purchase agreements with no long-term obligation. We believe that the introduction of FlexShopper's LTO programs support broad untapped expansion opportunities within the U.S. consumer e-commerce and retail marketplaces. We have successfully developed and are currently processing LTO transactions using FlexShopper's proprietary technology that automates the process of consumers receiving spending limits and entering into leases for durable goods within seconds. FlexShopper's primary LTO sales channels, which include business to consumer ("B2C") and business to business ("B2B") channels. Our B2C customers can acquire well-known brands such as Apple, Samsung, Sony, Frigidaire, General Electric, LG, Whirlpool, Hewlett Packard, Asus, Dell and Ashley at flexshopper.com. Concurrently, e-tailers and retailers FlexShopper's may increase their sales by utilizing FlexShopper's B2B channel to connect with consumers that want to acquire products on an LTO basis. FlexShopper's LTO sales channels include (1) selling directly to consumers via the online FlexShopper.com marketplace featuring thousands of durable goods, (2) utilizing our LTO payment method at check-out on our partners' e-commerce sites and (3) facilitating LTO transactions with retailers in their physical locations both through their in-store terminals and FlexShopper applications accessed via the Internet.

In 2021, we began to offer an unsecured, consumer loan product for our bank partner. In the bank partner origination model, applicants who apply and obtain a loan through our online platform are underwritten, approved, and funded by the bank partner. The product provides flexibility for FlexShopper to offer loans in retailer channels that provide services in addition to durable goods (e.g., tire retailers that provide car repair services) or in states which do not have lease purchase agreement regulations. FlexShopper's bank lending product leverages its marketing and servicing expertise and its partner bank's national presence to enable improved credit access to consumers. We manage many aspects of the loan life cycle on behalf of its bank partner, including customer acquisition, underwriting and loan servicing. This relationship allows FlexShopper's bank partner to leverage our customer acquisition channel, underwriting and service capabilities, which they would otherwise need to develop in-house. The bank partner uses their own capital to originate loans. The bank partner retains approval rights on all aspects of the program and are primarily responsible for regulatory and compliance oversight. Under the bank partner model, FlexShopper is compensated by the bank partner as a service provider for our role in delivering the technology and services to the bank partner to facilitate origination and servicing of loans throughout each loan's lifecycle. FlexShopper's bank partner holds loans originated on our platform. FlexShopper acquires participation rights in such loans ranging from 95 to 100% of the loan. FlexShopper is able to repurpose its technology as well as marketing, underwriting and servicing experience gained from the LTO business to facilitate bank partner originations. The Company's bank partner for the loan partner loan model chose to exit the high APR business in 2023. The Company is actively working on onboarding a new bank partner for this loan model.

In late 2022, FlexShopper purchased the assets of Revolution Financial, Inc. ("Revolution"). This purchase facilitated the creation of a direct origination model for consumers in 11 states. In the direct origination model, applicants who apply and obtain a loan through our platform are underwritten, approved, and funded directly by FlexShopper. Also acquired in the purchase were 22 leases for Revolution operated stores, as well as program agreements with 78 additional brick and mortar locations that share net revenue of the loans originated in those locations. In addition, we entered into an agreement to be the exclusive provider of non-prime loans to consumers in Liberty Tax corporate and franchisee locations nationwide. FlexShopper also purchased a portfolio of current customers and information on previous customers in order to market consumer products. FlexShopper is able to repurpose its technology, as well as marketing, underwriting and servicing experience gained from the LTO, business to facilitate loan originations in these locations.

During the first quarter of 2024, FlexShopper launched a new initiative to offer alternative lenders payment options on the Flexshopper.com marketplace to broaden the reach to a wider set of customers served by FlexShopper leases. In this initiative (retail sales), FlexShopper sells the items and makes a profit on the product margin.

**Patent Infringement Lawsuit Filed Against Competitors**

On September 30, 2024, the Company filed patent infringement lawsuits against Upbound Group, Inc. (Nasdaq: UPBD) (including its Acima subsidiaries) ("Upbound Group") and Katapult Holdings, Inc. (Nasdaq: KPLT) ("Katapult"), which are competitors of the Company, alleging unauthorized use of the Company patented technologies. These cases were filed in the U.S. District Court for the Eastern District of Texas. The lawsuits revolve around five key patents, granted between 2018 and the present, which protect the Company computer-implemented LTO technology. These patents cover the Company innovative systems and methods for enabling retailers to partner with third-party LTO providers, facilitating seamless LTO transactions for consumers. The lawsuits accuse Upbound Group and Katapult of multiple forms of infringement, including direct infringement, contributory infringement, and inducement of others to infringe. The Company is seeking both injunctive relief to prevent further infringement and monetary damages. The Company intends to vigorously protects its patents; however the Company is currently unable to predict the timing or outcome of this lawsuit.

**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, fair value of loan receivables 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.

**Lease Receivables and Allowance for Doubtful Accounts -** FlexShopper seeks to collect amounts owed under its leases from each customer on a weekly or biweekly basis by charging their bank accounts or credit cards. Lease receivables 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 primarily based upon historical collection experience that considers both the aging of the lease and the origination channel. Other qualitative factors are considered in estimating the allowance, such as seasonality, underwriting changes and other business trends. The lease receivables balances consisted of the following as of September 30, 2024 and December 31, 2023:

| | September 30, 2024 | December 31, 2023 |
|---|---|---|
| Lease receivables | $ 104,879,703 | $ 64,749,918 |
| Allowance for doubtful accounts | (38,698,232) | (19,954,828) |
| Lease receivables, net | $ 66,181,471 | $ 44,795,090 |

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. Lease receivables balances charged off against the allowance were $2,393,131 and $6,630,081 for the three and nine months ended September 30, 2024, respectively, and $726,007 and $33,454,814 for the three and nine months ended September 30, 2023, respectively.

| | Nine Months Ended September 30, 2024 | Year Ended December 31, 2023 |
|---|---|---|
| Beginning balance | $ 19,954,828 | $ 13,078,800 |
| Provision | 25,373,485 | 42,505,647 |
| Accounts written off | (6,630,081) | (35,629,619) |
| Ending balance | $ 38,698,232 | $ 19,954,828 |

**Loan receivables at fair value –** The Company elected the fair value option on its entire loan and loan participation receivables portfolio. As such, loan receivables are carried at fair value on the condensed consolidated balance sheets with changes in fair value recorded on the condensed consolidated statements of operations. Accrued and unpaid interest and fees are included in loan receivables at fair value on the condensed consolidated balance sheets. Management believes the reporting of these receivables at fair value more closely approximates the true economics of the loan.

Interest and fees are discontinued when loans receivable become contractually 90 or more days past due. The Company charges-off loans at the earlier of when the loans are determined to be uncollectible or when the loans are 90 days contractually past due. Recoveries on loan receivables that were previously charged off are recognized when cash is received. Changes in the fair value of loan receivables include the impact of current period charge offs associated with these receivables.

The Company estimates the fair value of the loan receivables using a discounted cash flow analysis at an individual loan level to more accurately predict future payments. The Company adjusts expected cash flows for estimated losses and servicing costs over the estimated duration of the underlying assets. These adjustments are determined using historical data and include appropriate consideration of recent trends and anticipated future performance. Future cash flows are discounted using a rate of return that the Company believes a market participant would require. Model results may be adjusted by management if the Company does not believe the output reflects the fair value of the instrument, as defined under U.S. GAAP. The models are updated at each measurement date to capture any changes in internal factors such as nature, term, volume, payment trends, remaining time to maturity, and portfolio mix, as well as changes in underwriting or observed trends expected to impact future performance.

**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, 2024 and 2023 are as follows:

| | Three Months Ended September 30, 2024 | Three Months Ended September 30, 2023 | $ Change | % Change |
|---|---|---|---|---|
| **Gross Profit:** | | | | |
| Gross lease billings and fees | $ 36,381,080 | $ 31,266,666 | $ 5,114,414 | 16.4 |
| Provision for doubtful accounts | (8,083,009) | (10,038,122) | 1,955,113 | (19.5) |
| Gain on sale of lease receivables | 15,791 | (146,345) | 162,136 | (110.8) |
| Lease placement collections | 50,328 | - | 50,328 | - |
| Net lease billing and fees | $ 28,364,190 | $ 21,082,199 | $ 7,281,991 | 34.5 |
| Loan revenues and fees | 2,780,667 | 3,208,920 | (428,253) | (13.3) |
| Net changes in the fair value of loans receivable | 6,266,498 | 7,095,327 | (828,829) | (11.7) |
| Net loan revenue | 9,047,165 | 10,304,247 | (1,257,082) | (12.2) |
| Retail revenue | 1,177,146 | - | 1,177,146 | - |
| Total revenues | $ 38,588,501 | $ 31,386,446 | $ 7,202,055 | 22.9 |
| Depreciation and impairment of lease merchandise | (14,486,564) | (13,061,958) | (1,424,606) | 10.9 |
| Loans origination costs and fees | (677,913) | (1,389,107) | 711,194 | (51.2) |
| Cost of retail revenues | (923,203) | — | (923,203) | — |
| Gross profit | $ 22,500,821 | $ 16,935,381 | $ 5,565,440 | 32.9 |
| Gross profit margin | 58 % | 54 % | | |

| | Three Months Ended September 30, 2024 | Three Months Ended September 30, 2023 | $ Change | % Change |
|---|---|---|---|---|
| **Adjusted EBITDA:** | | | | |
| Net income | $ 2,366,384 | $ 940,101 | $ 1,426,283 | 151.7 |
| Income taxes expense | 1,518,514 | 265,517 | 1,252,997 | 471.9 |
| Amortization of debt issuance costs | 314,702 | 194,682 | 120,020 | 61.6 |
| Amortization of discount on the promissory note related to acquisition | - | 59,238 | (59,238) | (100.0) |
| Other amortization and depreciation | 2,436,357 | 1,964,229 | 472,128 | 24.0 |
| Interest expense | 5,357,892 | 4,492,881 | 865,011 | 19.3 |
| Stock-based compensation | 156,922 | 471,819 | (314,897) | (66.7) |
| Adjusted EBITDA | $ 12,150,771 | $ 8,388,467 | $ 3,762,304 | 44.9 |

Key performance metrics for the nine months ended September 30, 2024 and 2023 are as follows:

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2024 | 2023 | $ Change | % Change |
| **Gross Profit:** | | | | |
| Gross lease billings and fees | $ 106,352,849 | $ 98,023,406 | $ 8,329,443 | 8.5 |
| Provision for doubtful accounts | (25,373,485) | (32,123,950) | 6,750,465 | (21.0) |
| Gain on sale of lease receivables | 77,225 | 2,803,745 | (2,726,520) | (97.2) |
| Lease placement collections | 215,384 | - | 215,384 | - |
| Net lease billing and fees | $ 81,271,973 | $ 68,703,201 | $ 12,568,772 | 18.3 |
| Loan revenues and fees | 8,527,443 | 11,742,778 | (3,215,335) | (27.4) |
| Net changes in the fair value of loans receivable | 11,165,374 | 6,258,279 | 4,907,095 | 78.4 |
| Net loan revenues | $ 19,692,817 | $ 18,001,057 | $ 1,691,760 | 9.4 |
| Retail revenues | 3,327,468 | - | 3,327,468 | - |
| Total revenues | $ 104,292,258 | $ 86,704,258 | $ 17,588,000 | 20.3 |
| Depreciation and impairment of lease merchandise | (43,021,351) | (42,893,163) | (128,188) | 0.3 |
| Loans origination costs and fees | (2,395,780) | (4,878,158) | 2,482,378 | (50.9) |
| Cost of retail revenues | (2,593,505) | - | (2,593,505) | - |
| Gross profit | $ 56,281,622 | $ 38,932,937 | $ 17,348,685 | 44.6 |
| Gross profit margin | 54 % | 45 % | | |

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2024 | 2023 | $ Change | % Change |
| **Adjusted EBITDA:** | | | | |
| Net income/ (loss) | $ 549,147 | $ (4,587,769) | $ 5,136,916 | (112.0) |
| Income taxes expense/ (benefit) | 215,550 | (1,185,247) | 1,400,797 | (118.2) |
| Amortization of debt issuance costs | 824,499 | 376,857 | 447,642 | 118.8 |
| Amortization of discount on the promissory note related to acquisition | - | 177,714 | (177,714) | (100.0) |
| Other amortization and depreciation | 7,134,573 | 5,674,931 | 1,459,642 | 25.7 |
| Interest expense | 15,389,344 | 13,292,114 | 2,097,230 | 15.8 |
| Stock-based compensation | 528,920 | 1,336,367 | (807,447) | (60.4) |
| Adjusted EBITDA | $ 24,642,033 | $ 15,084,967 | $ 9,557,066 | 63.4 |

We refer to Gross Profit and Adjusted EBITDA in the above tables as we use these measures to evaluate our operating performance and make strategic decisions about the Company. 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.

Gross Profit represents GAAP revenue less depreciation and impairment of lease merchandise and loans originations costs and fees. Gross Profit provides us with an understanding of the results from the primary operations of our business. We use Gross Profit to evaluate our period-over-period operating performance. This measure may be useful to an investor in evaluating the underlying operating performance of our business.

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

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

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

**Results of Operations**

**Three Months Ended September 30, 2024 Compared to Three Months Ended September 30, 2023**

The following table details operating results for the three months ended September 30, 2024 and 2023:

| | 2024 | 2023 | $ Change | % Change |
|---|---|---|---|---|
| Gross lease billings and fees | $ 36,381,080 | $ 31,266,666 | $ 5,114,414 | 16.4 |
| Provision for doubtful accounts | (8,083,009) | (10,038,122) | 1,955,113 | (19.5) |
| Gain on sale of lease receivables | 15,791 | (146,345) | 162,136 | (110.8) |
| Lease placement collections | 50,328 | - | 50,328 | - |
| Net lease billing and fees | $ 28,364,190 | $ 21,082,199 | $ 7,281,991 | 34.5 |
| Loan revenues and fees | 2,780,667 | 3,208,920 | (428,253) | (13.3) |
| Net changes in the fair value of loans receivable | 6,266,498 | 7,095,327 | (828,829) | (11.7) |
| Net loan revenues | $ 9,047,165 | $ 10,304,247 | $ (1,257,082) | (12.2) |
| Retail revenues | 1,177,146 | - | 1,177,146 | - |
| Total revenues | $ 38,588,501 | $ 31,386,446 | $ 7,202,055 | 22.9 |
| Depreciation and impairment of lease merchandise | (14,486,564) | (13,061,958) | (1,424,606) | 10.9 |
| Loans origination costs and fees | (677,913) | (1,389,107) | 711,194 | (51.2) |
| Cost of retail revenues | (923,203) | - | (923,203) | - |
| Marketing | (2,005,559) | (1,671,137) | (334,422) | 20.0 |
| Salaries and benefits | (4,049,422) | (3,231,100) | (818,322) | 25.3 |
| Other operating expenses | (6,888,348) | (6,080,725) | (807,623) | 13.3 |
| Operating income | 9,557,492 | 5,952,419 | 3,605,073 | 60.6 |
| Interest expense | (5,672,594) | (4,746,801) | (925,793) | 19.5 |
| Income taxes expense | (1,518,514) | (265,517) | (1,252,997) | 471.9 |
| Net income | $ 2,366,384 | $ 940,101 | $ 1,426,283 | 151.7 |

FlexShopper originated 22,997 leases with an average origination value of $712 for the three months ended September 30, 2024 compared to 21,459 leases with an average origination value of $668 for the comparable period last year. Net lease revenues for the three months ended September 30, 2024 were $28,364,190 compared to $21,082,199 for the three months ended September 30, 2023, representing an increase of $7,281,991 or 34.5%. In 2024, the volume increased due to the increase in approval rates and the average origination value per lease was higher compared to the same period last year. The provision for doubtful accounts relative to gross lease billings and fees were 22.2% and 32.1% for the three months ended September 30, 2024 and 2023, respectively.

Net loan revenues for our bank partner loan model for the three months ended September 30, 2024 were a loss of $189,608 compared to a gain of $7,656,790 for the three months ended September 30, 2023, representing a decrease of $7,846,398 or 102.5%. The decrease is mainly due to an update made in the third quarter of 2023 of the Company's best estimate of the estimated losses assumption a market participant would use to calculate the fair value of this loan portfolio. In the third quarter of 2023, the Company started placing the bank partner's loans in default to a third-party collector, which resulted in an update on the cash flow model used in the fair value calculation. Our bank partner originated 75 loans for the three months ended September 30, 2023. The Company's bank partner for the loan partner loan model chose to exit the high APR business in 2023. In May 2024, the Company purchased $1.06 million in loan participation from the bank partner. With this purchase, the bank partner has no remaining participation in this portfolio. The Company is actively working on onboarding a new bank partner for this loan model.

Net loan revenues for our state license loan model for the three months ended September 30, 2024 were a gain of $9,236,773 compared to a gain of $2,647,457 for the three months ended September 30, 2023, representing an increase of $6,589,316 or 248.9%. The increase is mainly due to an update of the Company's best estimate of the estimated losses assumption a market participant would use to calculate the fair value of this loan portfolio. In the third quarter of 2024, the Company started placing the state license loans in default to a third-party collector, which resulted in an update on the cash flow model used in the fair value calculation. For the state license loan model, the Company originated 32,868 loans in the three months ended September 30, 2024 compared to 35,847 loans for the three months ended September 30, 2023.

Depreciation and impairment of lease merchandise for the three months ended September 30, 2024 was $14,486,564 compared to $13,061,958 for the three months ended September 30, 2023, representing an increase of $1,424,606 or 10.9%. Asset level performance within the portfolio, as well as the mix of early paid off leases, will alter the average depreciable term of the leases within the portfolio and result in increases or decreases in cost of lease revenue and merchandise sold relative to lease revenue. The increase in depreciation and impairment of lease merchandise is mainly related to the increase in gross lease billing and fees, however this increase was partially offset by the increase of wholesale vendors in the portfolio, and therefore, the reduction in the cost of the merchandise.

Loans origination cost and fees for the three months ended September 30, 2024 was $677,913 compared to $1,389,107 for the three months ended September 30, 2023, representing a decrease of $711,194 or 51.2%. Loan origination cost and fees is correlated to the volume and dollar amount of loan products.

Marketing expenses in the three months ended September 30, 2024 were $2,005,559 compared to $1,671,137 in the three months ended September 30, 2023, an increase of $334,422 or 20.0%. In 2023, due to the macroeconomic conditions along with tightening approval rates, the Company had slowed down the marketing expenses. In 2024, marketing expenses are increasing slowly to generate more originations.

Salaries and benefits expense in the three months ended September 30, 2024 were $4,049,422 compared to $3,231,100 in the three months ended September 30, 2023, an increase of $818,322 or 25.3%.The addition of employees for the state license model and for the new initiatives that the Company is working on contributed to the increase in salaries and benefits.

Other operating expenses for the three months ended September 30, 2024 and 2023 included the following:

| | 2024 | 2023 |
|---|---|---|
| Amortization and depreciation | $ 2,436,357 | $ 1,964,229 |
| Computer and internet expenses | 905,744 | 978,599 |
| Legal and professional fees | 916,950 | 854,948 |
| Merchant bank fees | 738,755 | 430,506 |
| Customer verification expenses | 157,766 | 97,981 |
| Stock-based compensation expense | 156,922 | 471,819 |
| Insurance expense | 146,836 | 160,493 |
| Office and telephone expense | 309,275 | 303,668 |
| Rent expense | 406,660 | 312,254 |
| Advertising and recruiting fees | 11,205 | 98,972 |
| Travel expense | 210,196 | 191,328 |
| Business taxes and licenses | 51,957 | 60,133 |
| Bank service charges | 117,215 | 97,734 |
| Other | 322,510 | 58,061 |
| Total | $ 6,888,348 | $ 6,080,725 |

Amortization and depreciation expenses in the three months ended September 30, 2024 were $2,436,357 compared to $1,964,229 in the three months ended September 30, 2023, representing an increase of $472,128 or 24.0%. The majority of the increase is related to the amortization of capitalized software costs due to the preparation for new products offered by the Company and the amortization of capitalized data that is not directly used in underwriting decisions and that are probable that they will provide future economic benefit.

Computer and internet expenses in the three months ended September 30, 2024 were $905,744 compared to $978,599 in the three months ended September 30, 2023, representing a decrease of $72,855 or 7.4%. The decrease is mainly due to the optimization of IT related expenses after Revolution Transaction (see Note 14).

Legal and professional fees expenses in the three months ended September 30, 2024 were $916,950 compared to $854,948 in the three months ended September 30, 2023, representing an increase of $62,002 or 7.3%. The change is associated mainly with the increase in legal fees as the Company analyzed to offer different products.

Merchant bank fees expenses in the three months ended September 30, 2024 were $738,755 compared to $430,506 in the three months ended September 30, 2023, representing an increase of $308,249 or 71.6%. Merchant bank fee expense represents the ACH and card processing fees related to billing consumers. This expense is related to the size of the lease and loan portfolio.

Customer verification expenses in the three months ended September 30, 2024 were $157,766 compared to $97,981 in the three months ended September 30, 2023, representing an increase of $59,785 or 61.0%. Customer verification expense is primarily the cost of data used for underwriting new lease and loan applicants. The increase in marketing expense contributed to the increase in this expense.

Stock compensation expense in the three months ended September 30, 2024 was $156,922 compared to $471,819 in the three months ended September 30, 2023, representing a decrease of $314,897 or 66.7%. This decrease is due to the fact that the Company did not grant new stock options in the first 8 months of 2024.

Rent expense in the three months ended September 30, 2024 was $406,660 compared to $312,254 in the three months ended September 30, 2023, representing an increase of $94,406 or 30.2%. The increase is related to the monthly lease expense for the storefronts the Company added for the state licensed loan model.

Advertising and recruiting fees in the three months ended September 30, 2024 were $11,205 compared to $98,972 in the three months ended September 30, 2023, representing a decrease of $87,767 or 88.7%. This decrease is related to the hire of new employees at the end of 2023.

Travel expense in the three months ended September 30, 2024 was $210,196 compared to $191,328 in the three months ended September 30, 2023, representing an increase of $18,869 or 9.9%. This increase is mainly related to the roll out of new stores in our retailer channel.

**Nine Months Ended September 30, 2024 Compared to Nine Months Ended September 30, 2023**

The following table details operating results for the nine months ended September 30, 2024 and 2023:

| | 2024 | 2023 | $ Change | % Change |
|---|---|---|---|---|
| Gross lease billings and fees | $ 106,352,849 | $ 98,023,406 | $ 8,329,443 | 8.5 |
| Provision for doubtful accounts | (25,373,485) | (32,123,950) | 6,750,465 | (21.0) |
| Gain on sale of lease receivables | 77,225 | 2,803,745 | (2,726,520) | (97.2) |
| Lease placement collections | 215,384 | - | 215,384 | - |
| Net lease billing and fees | $ 81,271,973 | $ 68,703,201 | $ 12,568,772 | 18.3 |
| Loan revenues and fees | 8,527,443 | 11,742,778 | (3,215,335) | (27.4) |
| Net changes in the fair value of loans receivable | 11,165,374 | 6,258,279 | 4,907,095 | 78.4 |
| Net loan revenues | $ 19,692,817 | $ 18,001,057 | $ 1,691,760 | 9.4 |
| Retail revenues | 3,327,468 | - | 3,327,468 | - |
| Total revenues | $ 104,292,258 | $ 86,704,258 | $ 17,588,000 | 20.3 |
| Depreciation and impairment of lease merchandise | (43,021,351) | (42,893,163) | (128,188) | 0.3 |
| Loans origination costs and fees | (2,395,780) | (4,878,158) | 2,482,378 | (50.9) |
| Retail cost | (2,593,505) | - | (2,593,505) | - |
| Marketing | (6,316,945) | (4,258,904) | (2,058,041) | 48.3 |
| Salaries and benefits | (12,357,955) | (8,933,998) | (3,423,957) | 38.3 |
| Other operating expenses | (20,628,182) | (17,666,366) | (2,961,816) | 16.8 |
| Operating income | 16,978,540 | 8,073,669 | 8,904,871 | 110.3 |
| Interest expense | (16,213,843) | (13,846,685) | (2,367,158) | 17.1 |
| Income taxes (expense)/ benefit | (215,550) | 1,185,247 | (1,400,797) | (118.2) |
| Net income/ (loss) | $ 549,147 | $ (4,587,769) | $ 5,136,916 | (112.0) |

FlexShopper originated 65,057 leases with an average origination value of $706 for the nine months ended September 30, 2024 compared to 63,341 leases with an average origination value of $668 for the comparable period last year. Net lease revenues for the nine months ended September 30, 2024 were $81,271,973 compared to $68,703,201 for the nine months ended September 30, 2023, representing an increase of $12,568,772 or 18.3%. In 2024, the volume increased due to the increase in approval rates and the average origination value per lease was higher compared to the same period last year. The provision for doubtful accounts relative to gross lease billings and fees were 23.9% and 32.8% for the nine months ended September 30, 2024 and 2023, respectively. FlexShopper collected $292,609 and 2,803,745 from leases sold or placed to/with third parties for the nine months ended September 30, 2024 and 2023, respectively.

Net loan revenues for our bank partner loan model for the nine months ended September 30, 2024 were $5,577,043 compared to $10,643,244 for the nine months ended September 30, 2023, representing a decrease of $5,066,201 or 47.6%. The decrease is mainly due to an update made in the third quarter of 2023 of the Company's best estimate of the estimated losses assumption a market participant would use to calculate the fair value of this loan portfolio. In the third quarter of 2023, the Company started placing the bank partner's loans in default to a third-party collector, which resulted in an update on the cash flow model used in the fair value calculation. Our bank partner originated 373 loans for nine months ended September 30, 2023. The Company's bank partner for the loan partner loan model chose to exit the high APR business in 2023. In May 2024, the Company purchased $1.06 million in loan participation from the bank partner. With this purchase, the bank partner has no remaining participation in this portfolio. The Company is actively working on onboarding a new bank partner for this loan model.

Net loan revenues for our state license loan model for the nine months ended September 30, 2024 were $14,115,774 compared to $7,357,813 for the nine months ended September 30, 2023, representing an increase of $6,757,961 or 91.8%. The increase is mainly due to an update of the Company's best estimate of the estimated losses assumption a market participant would use to calculate the fair value of this loan portfolio. In the third quarter of 2024, the Company started placing the state license loans in default to a third-party collector, which resulted in an update on the cash flow model used in the fair value calculation. For the state license loan model, the Company originated 98,220 loans in the nine months ended September 30, 2024, compared to 103,228 loans for the nine months ended September 30, 2023.

Depreciation and impairment of lease merchandise for the nine months ended September 30, 2024 was $43,021,351 compared to $42,893,163 for nine months ended September 30, 2023, representing an increase of $128,188 or 0.3%. Asset level performance within the portfolio, as well as the mix of early paid off leases, will alter the average depreciable term of the leases within the portfolio and result in increases or decreases in cost of lease revenue and merchandise sold relative to lease revenue. The increase in depreciation and impairment of lease merchandise is mainly related to the increase in gross lease billing and fees, however this increase was partially offset by the increase of wholesale vendors in the portfolio, and therefore, the reduction in the cost of the merchandise.

Loans origination cost and fees for the nine months ended September 30, 2024 was $2,395,780 compared to $4,878,158 for the nine months ended September 30, 2023, representing a decrease of $2,482,378 or 50.9%. Loan origination cost and fees is correlated to the volume and dollar amount of loan products.

Marketing expenses in the nine months ended September 30, 2024 were $6,316,945 compared to $4,258,904 in the nine months ended September 30, 2023, an increase of $2,058,041 or 48.3%. In 2023, due to the macroeconomic conditions along with tightening approval rates, the Company had slowed down the marketing expenses. In 2024, marketing expenses are increasing slowly to generate more originations.

Salaries and benefits expense in the nine months ended September 30, 2024 were $12,357,955 compared to $8,933,998 in the nine months ended September 30, 2023, an increase of $3,423,957 or 38.3%. The addition of employees for the state license model and for the new initiatives that the Company is working on contributed to the increase in salaries and benefits.

Other operating expenses for the nine months ended September 30, 2024 and 2023 included the following:

| | 2024 | 2023 |
|---|---|---|
| Amortization and depreciation | $ 7,134,573 | $ 5,674,931 |
| Computer and internet expenses | 2,852,495 | 3,271,651 |
| Legal and professional fees | 2,781,265 | 2,302,946 |
| Merchant bank fees | 1,997,829 | 1,277,193 |
| Customer verification expenses | 536,522 | 285,194 |
| Stock-based compensation expense | 528,920 | 1,336,368 |
| Insurance expense | 455,774 | 469,271 |
| Office and telephone expense | 946,584 | 953,471 |
| Rent expense | 1,204,127 | 912,356 |
| Advertising and recruiting fees | 115,445 | 113,594 |
| Travel expense | 649,933 | 429,875 |
| Business taxes and licenses | 196,040 | 210,739 |
| Bank service charges | 331,248 | 335,535 |
| Other | 897,427 | 93,242 |
| Total | $ 20,628,182 | $ 17,666,366 |

Amortization and depreciation expenses in the nine months ended September 30, 2024 were $7,134,573 compared to $5,674,931 in the nine months ended September 30, 2023, representing an increase of $1,459,642 or 25.7%. The majority of the increase is related to the amortization of capitalized software costs due to the preparation for new products offered by the Company and the amortization of capitalized data that is not directly used in underwriting decisions and that are probable that they will provide future economic benefit.

Computer and internet expenses in the nine months ended September 30, 2024 were $2,852,495 compared to $3,271,651 in the nine months ended September 30, 2023, representing a decrease of $419,156 or 12.8%. The decrease is mainly due to the optimization of IT related expenses after Revolution Transaction (see Note 14).

Legal and professional fees expenses in the nine months ended September 30, 2024 were $2,781,265 compared to $2,302,946 in the nine months ended September 30, 2023, representing an increase of $478,319 or 20.8%. The change is associated mainly with the increase in legal fees as the Company analyzed to offer different products.

Merchant bank fees expenses in the nine months ended September 30, 2024 were $1,997,829 compared to $1,277,193 in the nine months ended September 30, 2023, representing an increase of $720,636 or 56.4%. Merchant bank fee expense represents the ACH and card processing fees related to billing consumers. This expense is related to the size of the lease and loan portfolio.

Customer verification expenses in the nine months ended September 30, 2024 were $536,522 compared to $285,194 in the nine months ended September 30, 2023, representing an increase of $251,328 or 88.1%. Customer verification expense is primarily the cost of data used for underwriting new lease and loan applicants. The increase in marketing expense contributed to the increase in this expense.

Stock compensation expense in the nine months ended September 30, 2024 was $528,920 compared to $1,336,368 in the nine months ended September 30, 2023, representing a decrease of $807,448 or 60.4%. This decrease is due to the fact that the Company did not grant new stock options in the first 8 months of 2024.

Rent expense in the nine months ended September 30, 2024 was $1,204,127 compared to $912,356 in the nine months ended September 30, 2023, representing an increase of $291,771 or 32.0%. The increase is related to the monthly lease expense for the storefronts the Company added for the state licensed loan model.

Advertising and recruiting fees in the nine months ended September 30, 2024 were $115,445 compared to $113,594 in the nine months ended September 30, 2023, representing an increase of $1,851 or 1.6%. This increase is related to the hire of new employees.

Travel expense in the nine months ended September 30, 2024 was $649,933 compared to $429,875 in the nine months ended September 30, 2023, representing an increase of $220,058 or 51.2%. This increase is mainly related to the roll out of new stores in our retailer channel.

**Operations**

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

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

| Online LTO Marketplace | Patent 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.

In 2021, we began to market an unsecured, consumer loan product for our bank partner. In the bank partner origination model, applicants who apply and obtain a loan through our online platform are underwritten, approved, and funded by the bank partner. FlexShopper is able to repurpose its technology as well as marketing, underwriting and servicing experience gained from the LTO business to facilitate bank partner originations. The Company's bank partner for the loan partner loan model chose to exit the high APR business in 2023. The Company is actively working on onboarding a new bank partner for this loan model.

In late 2022, FlexShopper purchased the assets of Revolution Financial, Inc.. This purchase facilitated the creation of a direct origination model for consumers in 11 states. In the direct origination model, applicants who apply and obtain a loan through our platform are underwritten, approved, and funded directly by FlexShopper.

During the first quarter of 2024, FlexShopper launched a new initiative to offer alternative lenders payment options on the Flexshopper.com marketplace to broaden the reach to a wider set of customers served by FlexShopper leases. In this initiative (retail sales), FlexShopper sells the items and makes a profit on the product margin.

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, 2024, the Company had cash of $7,330,542 compared to $5,732,483 at the same date in 2023. As of December 31, 2023, the Company had cash of $4,413,130. The increase in cash from December 31, 2023, was primarily due to the cash generated by the portfolio and the proceeds from the 2024 Credit Agreement.

As of September 30, 2024, the Company had lease receivables of $104,879,703 offset by an allowance for doubtful accounts of $38,698,232, resulting in net accounts receivable of $66,181,471. Accounts receivable is principally comprised of past due lease payments owed to the Company. An allowance for doubtful accounts is estimated based upon historical collection and delinquency percentages.

As of September 30, 2024, the Company had loan receivables of $47,116,140 which is measured at fair value. The Company primarily estimates the fair value of its loan receivables using discounted cash flow models that have been internally developed.

***Credit Agreement***

On March 6, 2015, FlexShopper, through a wholly-owned subsidiary ("Borrower"), entered into a credit agreement (as amended from time-to-time, the "Credit Agreement") with Wells Fargo Bank, National Association as paying agent, various lenders from time to time party thereto and WE 2014-1, LLC, an affiliate of Waterfall Asset Management, LLC, as administrative agent and lender ("Lender"). On September 2022, WE 2014-1, LLC assigned 100% of its Commitments and all Loans to Powerscourt Investments 32, LP, an affiliate of Waterfall Asset Management, LLC. The interest rate charged on amounts borrowed was SOFR plus 11% per annum. The Commitment Termination Date was April 1, 2024.

On March 27, 2024, the Company refinanced all the obligations under the Credit Agreement owed to the Administrative Agent and the Lenders, and all liens held by any of the Lenders, or the Administrative Agent were discharged and released. The Administrative Agent, the Lenders and the Company terminated the Credit Agreement.

On March 27, 2024, FlexShopper, through a wholly-owned subsidiary ("Borrower"), entered into a new credit agreement (the "2024 Credit Agreement") with Computershare Trust Company, National Association as paying agent, various lenders from time to time party thereto and Powerscourt Investment 50, LP, an affiliate of Waterfall Asset Management, LLC, as administrative agent and lender ("Lender"). The Borrower is permitted to borrow funds under the 2024 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 2024 Credit Agreement) less certain deductions described in the 2024 Credit Agreement. Under the terms of the 2024 Credit Agreement, subject to the satisfaction of certain conditions, the Borrower may borrow up to $150,000,000 from the Lender until the Commitment Termination Date and must repay all borrowed amounts one year thereafter, on the date that is 12 months following the Commitment Termination Date (unless such amounts become due or payable on an earlier date pursuant to the terms of the Credit Agreement). The Commitment Termination Date is April 1, 2026. The Lender was granted a security interest in certain leases and loans as collateral under this Agreement. The interest rate charged on amounts borrowed is SOFR plus 9% per annum. The Company will pay the Lender a fee in an amount equal to 1% of the aggregate Commitments as of March 27, 2024, payable in 12 monthly installments on each interest payment date commencing April 2024. At September 30, 2024, amounts borrowed bear interest at 14.21%.

The 2024 Credit Agreement provides that FlexShopper may not incur additional indebtedness (other than expressly permitted indebtedness) without the permission of the Lender, and also prohibits payments of cash dividends on common stock. Additionally, the 2024 Credit Agreement includes covenants requiring FlexShopper to maintain a minimum amount of Equity Book Value, Liquidity and Cash, and maintain a certain ratio of Consolidated Total Debt to Equity Book Value (each capitalized term, as defined in the 2024 Credit Agreement). Upon a Permitted Change of Control, FlexShopper must refinance the debt under the 2024 Credit Agreement, subject to the payment of an early termination fee.

The 2024 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 2024 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 2024 Credit Agreement and related documents (including certain financial and expense covenants), deficiencies in the borrowing base, certain judgments against FlexShopper and bankruptcy events.

The Company borrowed under the Credit Agreement $12,600,000 and $34,961,690 for the three and nine months ended September 30, 2024, respectively, and $5,050,000 and $7,800,000 for the three and nine months ended September 30, 2023, respectively. The Company repaid under the Credit Agreement and $0 and $0 for the three and nine months ended September 30, 2024, respectively, and $0 and $2,795,000 for the three and nine months ended September 30, 2023, respectively.

Interest expense incurred under the Credit Agreement amounted to $4,573,654 and $12,996,319 for the three and nine months ended September 30, 2024, respectively, and $3,503,486 and $10,115,009 for the three and nine months ended September 30, 2023, respectively. The outstanding balance under the Credit Agreement was $131,416,690 as of September 30, 2024 and was $96,455,000 as of December 31, 2023. Such amount is presented in the condensed consolidated balance sheets net of unamortized issuance costs of $1,142,325 and $70,780 as of September 30, 2024 and December 31, 2023, respectively. 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 April 1, 2026, or from reductions in the borrowing base. The Company must repay all borrowed amounts one year after the Commitment Termination Date. Accordingly, all principal is shown as a non-current liability at September 30, 2024.

***Financing Activity***

On January 25, 2019, FlexShopper, LLC (the "Promissory Note Borrower") entered into a subordinated debt financing letter agreement with 122 Partners, LLC, as lender, pursuant to which the Promissory Note Borrower issued a subordinated promissory note to 122 Partners, LLC (the "122 Partners Note") in the principal amount of $1,000,000. H. Russell Heiser, Jr., FlexShopper's Chief Executive Officer, is a member of 122 Partners, LLC. On March 30, 2023, the Promissory Note Borrower executed a fourth amendment to the 122 Partners Note such that the maturity date of the 122 Partners Note was extended from April 1, 2023 to October 1, 2023. On September 6, 2023, the Promissory Note Borrower paid all the principal and interest outstanding as of that date.

The Borrower previously entered into letter agreements with NRNS Capital Holdings LLC ("NRNS"), the manager of which is the Chairman of the Company's Board of Directors, pursuant to which the Borrower issued subordinated promissory notes to NRNS (the "NRNS Note") in the total principal amount of $3,750,000. Payment of principal and accrued interest under the NRNS Note was due and payable by the Borrower on June 30, 2021 and FlexShopper, LLC can prepay principal and interest at any time without penalty. At September 30, 2024, amounts outstanding under the NRNS

Note bear interest at a rate of 19.21%. Obligations under the NRNS Note are subordinated to obligations under the Credit Agreement. The NRNS 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 NRNS Note. Obligations under the NRNS Note is secured by substantially all of the Borrower's assets, subject to rights of the lenders under the Credit Agreement. On March 22, 2021, FlexShopper, LLC executed an amendment to the NRNS Note such that the maturity date was extended to April 1, 2022. On February 2, 2022, FlexShopper LLC executed another amendment to the NRNS Note. This last amendment extended the maturity date from April 1, 2022 to July 1, 2024 and increased the credit commitment from $3,750,000 to $11,000,000.

On June 29, 2023, the Company, the Borrower, NRNS, Mr. Heiser and PITA Holdings, LLC ("PITA") entered into an Amendment to Subordinated Debt and Warrants to Purchase Common Stock (the "Amendment"), pursuant to which, among other things, the parties agreed to extend the maturity date of the NRNS Note from July 1, 2024 to July 1, 2025. In order to induce NRNS to enter into the Amendment, the Company extended the expiration date of certain warrants (See Note 9). The cost of the warrant modification was $917,581 and was recorded as a deferred debt cost of NRNS note. No other changes were made to such NRNS Note.

Principal and accrued and unpaid interest outstanding on the NRNS Note was $10,922,848 as of September 30, 2024.

***Cash Flow Summary***

**Cash Flows from Operating Activities**

Net cash used in operating activities was $23,791,180 for the nine months ended September 30, 2024 and was primarily due to the purchases of leased merchandise and the change in lease receivable offset by the add back of provision for doubtful accounts and the add back of depreciation and impairment on leased merchandise.

Net cash provided by operating activities was $2,562,763 for the nine months ended September 30, 2023 and was primarily due to the provision for doubtful accounts and the depreciation and impairment on leased merchandise partially offset by the purchases of leased merchandise and the change in lease receivable.

**Cash Flows from Investing Activities**

For the nine months ended September 30, 2024, net cash used in investing activities was $6,225,129 comprised of the use of $4,889,386 for the purchase of property and equipment, including capitalized software costs, and $1,335,743 of data costs.

For the nine months ended September 30, 2023, net cash used in investing activities was $5,136,639 comprised of the use of $4,565,819 for the purchase of property and equipment, including capitalized software costs, and $570,820 of data costs.

**Cash Flows from Financing Activities**

Net cash provided by financing activities was $32,933,721 for the nine months ended September 30, 2024 primarily due to the funds drawn on the 2024 Credit Agreement of $34,961,690.

Net cash provided by financing activities was $2,138,336 for the nine months ended September 30, 2023 primarily due to the funds borrowed under the Credit Agreement of $7,800,000 offset by repayments of amounts borrowed under Credit Agreement of $2,795,000, repayment of Basepoint credit agreement of $1,500,000 and repayment of 122 Partner Note for $1,000,000.

**Capital Resources and Financial Condition**

To date, funds derived from the sale of the Company's common stock, warrants, Series 1 Convertible Preferred Stock and Series 2 Convertible Preferred Stock, proceeds from promissory notes to related parties and the Company's ability to borrow funds against the lease and loan 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 8).

**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.

In connection with our December 31, 2023 financial statements, we identified a material weakness in our internal control over financial reporting. This material weakness was due to a lack of effective controls over the review of certain accounts calculations related to the tax provision as developed by a third-party service provider. The tax provision is a complex calculation for the Company mainly because there are several different state tax regulations to take into consideration, the business combination occurred in 2022, and the recent changes to the tax interest limitation.

As of September 30, 2024, the material weakness described above was remediated as management of the Company changed the tax third party service provider to a well-known tax and audit firm and added more review procedures to the tax provision.

In connection with our September 30, 2024 financial statements, we identified a material weakness in our internal control over financial reporting. This material weakness is due to a lack of effective controls over the monitoring of assets pledged as collateral against certain of the Company's loan receivables at fair value.

The Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective at the reasonable assurance level at September 30, 2024.

Notwithstanding the identified material weaknesses, the Company believes the financial statements included in this Quarterly Report on Form 10-Q fairly represent in all material respects our financial condition, results of operations and cash flows at and for the periods presented in accordance with accounting principles generally accepted in the United States of America.

Other than the remediation of the material weakness identified as of December 31, 2023, and the identification of the material weakness identified as of September 30, 2024 mentioned above, there were no other 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, 2023. 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.

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

On May 17, 2023, the Board of Directors authorized a share repurchase program to acquire up to $2 million of the Company's common stock. The Company may purchase common stock on the open market, through privately negotiated transactions, or by other means including through the use of trading plans intended to qualify under Rule 10b-18 under the Securities Exchange Act of 1934, as amended, in accordance with applicable securities laws and other restrictions. The timing and total amount of stock repurchases will depend upon business, economic and market conditions, corporate and regulatory requirements, prevailing stock prices, and other considerations. The share repurchase program will have a term of 18 months and may be suspended or discontinued at any time and does not obligate the company to acquire any amount of common stock. The objective of this program is to repurchase shares of common stock opportunistically when management believes that the Company's stock is trading below the Company's determination of long-term fair value. The shares of common stock when repurchased by the Company will become treasury shares.

The following table presents information with respect to purchases of common stock made during the three month period ended September 30, 2024:

| Period | Total Number of Shares Purchased | Average Price Paid per Share ($) | Total Number of Shares Purchased as Part of a Publicly Announced Programs | Maximum Dollar Value of Shares that may yet be Purchased Under Publicly Announced Programs ($) |
|---|---|---|---|---|
| July 1- July 31 | 15,207 | 1.09 | 15,207 | 1,615,275 |
| August 1- August 31 | 58,932 | 1.07 | 58,932 | 1,550,051 |
| September 1- September 30 | 106,425 | 1.04 | 106,425 | 1,436,463 |

The Company purchased under the share repurchase program 180,564 shares of common stock for a net cost of $195,974 for the three months ended September 30, 2024.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

### ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

### ITEM 5. OTHER INFORMATION.

None.

**ITEM 6. EXHIBITS.**

| Exhibit Number | Description |
|---|---|
| 3.1 | Restated Certificate of Incorporation of FlexShopper, Inc. (previously filed as Exhibit 3.1 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 and incorporated herein by reference). |
| 3.2 | Amended and Restated Bylaws (previously filed as Exhibit 3.2 to the Company’s Current Report on Form 10-K filed on March 11, 2019 and incorporated herein by reference). |
| 3.3 | Certificate of Amendment to the Certificate of Incorporation of the Company (previously filed as Exhibit 3.1 to the Company’s Current Report on Form 8-K filed on September 21, 2018 and incorporated herein by reference). |
| 3.4 | Certificate of Amendment to the Certificate of Incorporation of the Company (previously filed as Exhibit 3.4 to the Company’s Quarterly Report on Form 10-Q filed on November 5, 2018 and incorporated herein by reference). |
| 3.5 | Certificate of Amendment to the Company's Certificate of Incorporation, filed October 7, 2024 (previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on October 8, 2024 and incorporated herein by reference). |
| 10.1 | Preferred Stock Purchase Option Agreement, dated October 25, 2024, between FlexShopper, Inc. and B2 FIE V LLC (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 28, 2024 and incorporated herein by reference). |
| 10.2 | Amendment No.5 to the FlexShopper, Inc. 2018 Omnibus Equity Compensation Plan (previously filed as Appendix B to the Company’s Definitive Proxy Statement filed on September 9, 2024 and incorporated herein by reference). |
| 31.1 | Rule 13a-14(a) Certification – Principal Executive and Financial Officer.* |
| 32.1 | Section 1350 Certification – Principal Executive and Financial Officer.* |
| 101.INS | Inline XBRL Instance Document.* |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document.* |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document.* |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document.* |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document.* |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document.* |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).* |

* Filed herewith.

## SIGNATURES

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

**FLEXSHOPPER, INC.**

Date: November 19, 2024

By: /s/ H. Russell Heiser, Jr.

H. Russell Heiser, Jr.
Chief Executive Officer
(Principal Executive Officer and
Principal Financial and Accounting Officer)

**Amendment No. 5 to the**
**FlexShopper, Inc. 2018 Omnibus Equity Compensation Plan**

This Amendment ("Amendment"), dated October 7, 2024, of the 2018 Omnibus Equity Compensation Plan (the "Existing Plan," and as amended, the "Plan"), of FlexShopper, Inc., a Delaware corporation (the "Company"), is made and adopted by the Company, subject to approval of the stockholders of the Company.

Statement of Purpose

The Existing Plan was originally approved by the Company's Board of Directors (the "Board") on March 1, 2018, and by its stockholders on April 26, 2018, and became effective on such date. The Existing Plan was subsequently amended by Amendment No. 1 thereto by the Board on February 21, 2019, and by the Company's stockholders on May 2, 2019, by Amendment No. 2 thereto by the Board on April 24, 2020, and by the Company's stockholders on June 10, 2020, by Amendment No. 3 thereto by the Board on March 31, 2021, and by our stockholders on June 9, 2021, and by Amendment No. 4 thereto by the Board on August 8, 2023, and by our stockholders on November 1, 2024. The Board may amend the Plan at any time, pursuant to and subject to Section 5.2 of the Plan, contingent on approval by the stockholders of the Company, if stockholder approval is required by applicable law or applicable securities exchange listing requirements. The Board has determined that it is advisable and in the best interest of the Company to again amend the Plan to increase the number of shares of the Company's common stock, par value $0.0001 per share, authorized for issuance under the Plan by 3,000,000 shares, and to make the other changes to the Plan described in this Amendment.

NOW, THEREFORE, the Plan is hereby amended as follows, subject to approval by the stockholders of the Company:

1. Capitalized Terms. All capitalized terms used and not defined herein shall have the meanings given thereto in the Plan.

2. Amendment of Section 4.1 of the Plan. Section 4.1 of the Plan is hereby deleted in its entirety and replaced with the following:

"4.1 Authorized Number of Shares

Subject to adjustment under Section 15, the total number of Shares authorized to be awarded under the Plan shall not exceed the sum of (1) 8,057,000 shares, plus (2) effective upon November 1, 2023 (subject to stockholder approval), 3,000,000 shares. In addition, Shares underlying any outstanding award granted under a Prior Plan that, after the Effective Date, expires, or is terminated, surrendered, or forfeited for any reason without issuance of Shares shall be available for the grant of new Awards. As provided in Section 1, no new awards shall be granted under the Prior Plans after the Effective Date. Shares issued under the Plan shall consist in whole or in part of authorized but unissued Shares, treasury Shares, or Shares purchased on the open market or otherwise, all as determined by the Company from time to time."

3. Amendment of Section 4.3 of the Plan. Section 4.3 of the Plan is hereby deleted in its entirety and replaced with the following:

"4.3 Incentive Stock Option Award Limits

Subject to adjustment under Section 15, 11,000,000 Shares available for issuance under the Plan shall be available for issuance as Incentive Stock Options."

4. Reference to and Effect on the Plan. The Plan, as amended hereby, and all other documents, instruments and agreements executed and/or delivered in connection therewith, shall remain in full force and effect, and are hereby ratified and confirmed.

5. Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of Delaware.

* * *

Effective October 7, 2024

**Exhibit 31.1**

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**

I, H. Russell Heiser Jr., 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 19, 2024

By: /s/ H. Russell Heiser Jr.

H. Russell Heiser Jr.

Chief Executive Officer
(Principal Executive Officer and
Principal Financial and Accounting Officer)

**Exhibit 32.1**

**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, 2024 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, H. Russell Heiser Jr., Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 19, 2024

By: /s/ H. Russell Heiser Jr.
H. Russell Heiser Jr.
Chief Executive Officer
(Principal Executive Officer and
Principal Financial and Accounting Officer)