

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-QSB

**Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act Of 1934**

**For The Quarterly Period Ended March 31, 2008**

**Commission File Number: 0-52589**

**ANCHOR FUNDING SERVICES, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State of jurisdiction of Incorporation)

**20-5456087**

(I.R.S. Employer Identification No.)

**10801 Johnston Road, Suite 210**

**Charlotte, NC**

(Address of Principal Executive Offices)

**28226**

(Zip Code)

**(866) 789-3863**

(Registrant's telephone number)

**Not Applicable**

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

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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 is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of March 31, 2008, the Company had a total of 12,427,245 shares of Common Stock outstanding, excluding 1,317,365 outstanding shares of Series 1 Preferred Stock convertible into 6,586,825 shares of Common Stock.

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ANCHOR FUNDING SERVICES, INC.

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## PART I. FINANCIAL INFORMATION

ANCHOR FUNDING SERVICES, INC.  
CONSOLIDATED BALANCE SHEETS

## ASSETS

|  | (Unaudited)<br>March<br>31, 2008 | (Audited)<br>December<br>31, 2007 |
|--|----------------------------------|-----------------------------------|
| <b>CURRENT ASSETS:</b>                             |                                  |                                   |
| Cash   | \$ 2,564,068                     | \$ 3,499,044                      |
| Retained interest in purchased accounts receivable | 1,993,464                        | 1,502,215                         |
| Earned but uncollected fee income                  | 41,026                           | 25,742                            |
| Prepaid expenses                                   | 84,558                           | 65,016                            |
| Total current assets                               | <u>4,683,116</u>                 | <u>5,092,017</u>                  |
| PROPERTY AND EQUIPMENT, net                        | 86,487                           | 89,044                            |
| SECURITY DEPOSITS                                  | <u>20,216</u>                    | <u>20,216</u>                     |
|  | <u>\$ 4,789,819</u>              | <u>\$ 5,201,277</u>               |

## LIABILITIES AND STOCKHOLDERS' EQUITY

|  |                     |                     |
|--|---------------------|---------------------|
| <b>CURRENT LIABILITIES:</b>                              |                     |                     |
| Accounts payable   | \$ 103,674          | \$ 68,728           |
| Accrued payroll and related taxes                        | 106,937             | 101,248             |
| Accrued expenses   | 33,813              | 73,201              |
| Collected but unearned fee income                        | 34,525              | 30,748              |
| Preferred dividends payable                              | 135,066             | 405,995             |
| Total current liabilities                                | <u>414,015</u>      | <u>679,920</u>      |
| <b>COMMITMENTS AND CONTINGENCIES</b>                     |                     |                     |
| PREFERRED STOCK, net of issuance costs of<br>\$1,209,383 | 5,376,542           | 5,503,117           |
| COMMON STOCK   | 12,428              | 11,821              |
| ADDITIONAL PAID IN CAPITAL                               | 1,143,328           | 536,199             |
| ACCUMULATED DEFICIT                                      | <u>(2,156,494)</u>  | <u>(1,529,780)</u>  |
|  | <u>4,375,804</u>    | <u>4,521,357</u>    |
|  | <u>\$ 4,789,819</u> | <u>\$ 5,201,277</u> |

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

**ANCHOR FUNDING SERVICES, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For the three months ended March 31, 2008 and 2007**

|  | <u>(Unaudited)</u><br>2008 | <u>(Unaudited)</u><br>2007 |
|--|----------------------------|----------------------------|
| FINANCE REVENUES   | \$ 211,661                 | \$ 100,106                 |
| INTEREST EXPENSE - financial institution                               | -                          | (4,170)                    |
| INTEREST INCOME  | <u>23,617</u>              | <u>28,945</u>              |
| NET FINANCE REVENUES   | 235,278                    | 124,881                    |
| BENEFIT FOR RECOVERIES (PROVISION FOR CREDIT LOSSES)                   | <u>6,096</u>               | <u>-</u>                   |
| FINANCE REVENUES, NET OF INTEREST EXPENSE AND CREDIT BENEFITS (LOSSES) | 241,374                    | 124,881                    |
| OPERATING EXPENSES   | 664,255                    | 269,788                    |
| NET INCOME (LOSS) BEFORE INCOME TAXES                                  | (422,881)                  | (144,907)                  |
| INCOME TAXES   | <u>-</u>                   | <u>15,000</u>              |
| NET INCOME (LOSS)  | (422,881)                  | (129,907)                  |
| DEEMED DIVIDEND ON CONVERTIBLE PREFERRED STOCK                         | <u>(136,404)</u>           | <u>(1,460)</u>             |
| NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDER                   | <u>\$ (559,285)</u>        | <u>\$ (131,367)</u>        |
| NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDER, per share        |                            |                            |
| Basic  | <u>\$ (0.05)</u>           | <u>\$ (0.01)</u>           |
| Dilutive   | <u>\$ (0.05)</u>           | <u>\$ (0.01)</u>           |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING                          |                            |                            |
| Basic and dilutive   | <u>12,110,860</u>          | <u>11,141,103</u>          |

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

**ANCHOR FUNDING SERVICES, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**For the three months ended March 31, 2008**

|   | <u>Preferred<br/>Stock</u> | <u>Common<br/>Stock</u> | <u>Additional<br/>Paid in Capital</u> | <u>Accumulated<br/>Deficit</u> |
|---|----------------------------|-------------------------|---------------------------------------|--------------------------------|
| Beginning Balance, December 31, 2007 (audited)  | \$ 5,503,117               | \$ 11,821               | \$ 536,199                            | \$ (1,529,780)                 |
| To record the of issuance of 94,865 preferred shares in connection with the payment of the accrued preferred dividend liability as of December 31, 2007 | 473,425                    | -                       | -                                     | -                              |
| To record conversion of 120,000 preferred shares, plus accrued and undeclared dividends, to 606,990 common shares                                       | (600,000)                  | 607                     | 600,731                               | (1,338)                        |
| Provision for compensation expense related to issued stock options  | -                          | -                       | 6,398                                 | -                              |
| To record preferred stock dividends   | -                          | -                       | -                                     | (202,495)                      |
| Net loss for the quarter ended March 31, 2008   | -                          | -                       | -                                     | (422,881)                      |
| Ending Balance, March 31, 2008 (unaudited)  | <u>\$ 5,376,542</u>        | <u>\$ 12,428</u>        | <u>\$ 1,143,328</u>                   | <u>\$ (2,156,494)</u>          |

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

**ANCHOR FUNDING SERVICES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the three months ended March 31, 2008 and 2007**

|  | (Unaudited)<br>2008 | (Unaudited)<br>2007 |
|--|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                     |                     |
| Net loss   | \$ (422,881)        | \$ (129,907)        |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: |                     |                     |
| Depreciation and amortization  | 8,531               | 1,606               |
| Compensation expense related to issuance of stock options                            | 6,398               | 45,984              |
| Benefit for income taxes   | -                   | (15,000)            |
| Increase in retained interest in purchased accounts receivable                       | (491,249)           | (119,613)           |
| Increase in earned but uncollected fee income  | (15,284)            | (8,285)             |
| Decrease in prepaid expenses   | (19,542)            | 15,025              |
| (Decrease) increase in accounts payable  | 34,946              | (35,340)            |
| Decrease in due to related company   | -                   | (9,442)             |
| Increase in accrued payroll and related taxes  | 5,689               | 42,031              |
| Increase in collected but unearned fee income  | 3,777               | 3,966               |
| Increase in accrued expenses   | (39,388)            | 26,587              |
| Net cash used in operating activities  | <u>(929,003)</u>    | <u>(182,388)</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                     |                     |
| Purchases of property and equipment  | (5,973)             | (1,758)             |
| Loans to related company   | -                   | 0                   |
| Net cash used in investing activities  | <u>(5,973)</u>      | <u>(1,758)</u>      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                     |                     |
| (Payments to) borrowings from financial institution, net                             | -                   | (130,845)           |
| Proceeds from sale of preferred stock  | -                   | 6,662,500           |
| Payments made related to sale of preferred stock                                     | -                   | (1,180,208)         |
| Net cash provided by financing activities  | <u>0</u>            | <u>5,351,447</u>    |
| <b>INCREASE IN CASH</b>  | <b>(934,976)</b>    | <b>5,167,301</b>    |
| CASH, beginning of period  | <u>3,499,044</u>    | <u>55,771</u>       |
| CASH, end of period  | <u>\$ 2,564,068</u> | <u>\$ 5,223,072</u> |

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

**ANCHOR FUNDING SERVICES, INC**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2008 and 2007**

The Consolidated Balance Sheet as of March 31, 2008, the Consolidated Statement of Changes in Stockholders' Equity for the three months ended March 31, 2008 and the Consolidated Statements of Operations and Cash Flows for the three months ended March 31, 2008 and 2007 have been prepared by us without audit. In the opinion of Management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly in all material respects our financial position as of March 31, 2008 and results of operations and cash flows for the three months ended March 31, 2008 and 2007. The results of operations and cash flows for the three months ended March 31, 2008 are not necessarily indicative of the results to be expected for the full year.

This report should be read in conjunction with our Form 10-KSB for our fiscal year ended December 31, 2007.

**1. BACKGROUND AND DESCRIPTION OF BUSINESS:**

The consolidated financial statements include the accounts of Anchor Funding Services, Inc. (formerly BTHC XI, Inc.) and its wholly owned subsidiary, Anchor Funding Services, LLC ("the Company"). In April of 2007, BTHC XI, Inc. changed its name to Anchor Funding Services, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Anchor Funding Services, Inc. is a Delaware corporation. Anchor Funding Services, Inc. has no operations; substantially all operations of the Company are the responsibility of Anchor Funding Services, LLC.

Anchor Funding Services, LLC is a North Carolina limited liability company. Anchor Funding Services, LLC was formed for the purpose of providing factoring and back office services to businesses located throughout the United States of America.

On January 31, 2007, BTHC XI, Inc acquired Anchor Funding Services, LLC by exchanging shares in BTHC XI, Inc. for all the outstanding membership units of Anchor Funding Services, LLC (See Note 8). Anchor Funding Services, LLC is considered the surviving entity therefore these financial statements include the accounts of BTHC XI, Inc. and Anchor Funding Services, LLC since January 1, 2007.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Revenue Recognition** – The Company charges fees to its customers in one of two ways as follows:

- 1) **Fixed Transaction Fee.** Fixed transaction fees are a fixed percentage of the purchased invoice. This percentage does not change from the date the purchased invoice is funded until the date the purchased invoice is collected.
- 2) **Variable Transaction Fee.** Variable transaction fees are variable based on the length of time the purchased invoice is outstanding. As specified in its contract with the client, the Company charges variable increasing percentages of the purchased invoice as time elapses from the purchase date to the collection date.

For both Fixed and Variable Transaction fees, the Company recognizes revenue by using one of two methods depending on the type of customer. For new customers the Company recognizes revenue using the cost recovery method. For established customers the Company recognizes revenue using the accrual method.

Under the cost recovery method, all revenue is recognized upon collection of the entire amount of purchased accounts receivable.

The Company considers new customers to be accounts whose initial funding has been within the last three months or less. Management believes it needs three months of history to reasonably estimate a customer's collection period and accrued revenues. If three months of history has a limited number of transactions, the cost recovery method will continue to be used until a reasonable revenue estimate can be made based on additional history. Once the Company obtains sufficient historical experience, it will begin using the accrual method to recognize revenue.

For established customers the Company uses the accrual method of accounting. The Company applies this method by multiplying the historical yield, for each customer, times the amount advanced on each purchased invoice outstanding for that customer, times the portion of a year that the advance is outstanding. The customers' historical yield is based on the Company's last six months of experience with the customer along with the Company's experience in the customer's industry, if applicable.

The amounts recorded as revenue under the accrual method described above are estimates. As purchased invoices are collected, the Company records the appropriate adjustments to record the actual revenue earned on each purchased invoice. These adjustments from the estimated revenue to the actual revenue have not been material.

**Retained Interest in Purchased Accounts Receivable** – Retained interest in purchased accounts receivable represents the gross amount of invoices purchased from factoring customers less amounts maintained in a reserve account. The Company purchases a customer's accounts receivable and advances them a percentage of the invoice total. The difference between the purchase price and amount advanced is maintained in a reserve account. The reserve account is used to offset any potential losses the Company may have related to the purchased accounts receivable.

The Company's factoring and security agreements with their customers include various recourse provisions requiring the customers to repurchase accounts receivable if certain conditions, as defined in the factoring and security agreement, are met.

Senior management reviews the status of uncollected purchased accounts receivable monthly to determine if any are uncollectible. The Company has a security interest in the accounts receivable purchased and on a case-by-case basis, may have additional collateral. The Company files security interests in the property securing their advances. Access to this collateral is dependent upon the laws and regulations in each state where the security interest is filed. Additionally, the Company has varying types of personal guarantees from their factoring customers relating to the purchased accounts receivable.



Management considered approximately \$24,600 of their March 31, 2008 retained interest in purchased accounts receivable to be uncollectible. Management did not consider any of the March 31, 2007 retained interest in purchased accounts receivable uncollectible based on their analysis of the portfolio.

Management believes the fair value of the retained interest in purchased accounts receivable approximates its recorded value because of the relatively short term nature of the purchased receivable and the fact that the majority of these invoices have been subsequently collected.

**Property and Equipment** – Property and equipment, consisting of furniture and fixtures and computers and software, are stated at cost. Depreciation is provided over the estimated useful lives of the depreciable assets using the straight-line method.

**Advertising Costs** – The Company charges advertising costs to expense as incurred. Total advertising costs were approximately \$151,400 and \$31,700 for the quarters ending March 31, 2008 and 2007, respectively.

**Earnings per Share** – The Company computes net income per share in accordance with SFAS No. 128 “Earnings Per Share.” Basic net income per share is computed by dividing the net income for the period by the weighted average number of common shares outstanding during the period. The impact of convertible preferred stock, stock options and stock warrants were excluded since their impact would have been anti-dilutive. The dilutive effect of stock options and warrants is computed using the treasury stock method, which assumes the repurchase of common shares at the average market price.

**Stock Based Compensation until December 31, 2005** - In December 2004, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“SFAS”) No. 123(R), “Accounting for Stock-Based Compensation.” SFAS No. 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. This statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123(R) requires that the fair value of such equity instruments be recognized as an expense in the historical financial statements as services are performed. Prior to SFAS No. 123(R), only certain pro forma disclosures of fair value were required. The provisions of this statement were effective for the first interim reporting period that began after December 15, 2005. The Company adopted the provisions of SFAS No.123(R) in the first quarter of fiscal 2006.

See Note 9 for the SFAS No. 123(R) impact on the operating results for the quarters ended March 31, 2008 and 2007.

**Fair Value of Financial Instruments** – The carrying value of cash equivalents, retained interest in purchased accounts receivable, due from/to financial institution, accounts payable and accrued liabilities approximates their fair value.

**Cash and cash equivalents** – Cash and cash equivalents consist primarily of highly liquid cash investment funds with original maturities of three months or less when acquired.

**Income Taxes** – Effective January 31, 2007, the Company became a “C” corporation for income tax purposes. In a “C” corporation income taxes are provided for the tax effects of transactions reported in the financial statements plus deferred income taxes related to the differences between financial statement and taxable income.

The primary differences between financial statement and taxable income for the Company are as follows:

- Compensation costs related to the issuance of stock options
- Use of the reserve method of accounting for bad debts
- Differences in bases of property and equipment between financial and income tax reporting
- Net operating loss carryforwards.

The deferred tax asset represents the future tax return consequences of utilizing these items. Deferred tax assets are reduced by a valuation reserve, when management is uncertain if the net deferred tax assets will ever be realized.

Prior to January 31, 2007, Anchor Funding Services, LLC was treated as a partnership for Federal and state income tax purposes. Its earnings and losses were included in the personal tax returns of its members; therefore, no provision or benefit from income taxes has been included in those financial statements.

In July 2006, FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of SFAS No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that the Company recognize in its consolidated financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 became effective for the Company on January 1, 2007.

The Company applied FIN 48 to all its tax positions, including tax positions taken and those expected to be taken, under the transition provision of the interpretation. As a result of the implementation of FIN 48, the Company recognized no increases or decreases in its recorded tax liabilities or 2006 retained earnings.

For the quarters ended March 31, 2008 and 2007, the Company recognized no liability for uncertain tax positions.

The Company classifies interest accrued on unrecognized tax benefits with interest expense. Penalties accrued on unrecognized tax benefits are classified with operating expenses.

#### **Recent Accounting Pronouncements –**

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, "*Fair Value Measurements*." SFAS 157 provides enhanced guidance for using fair value to measure assets and liabilities. It clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS 157 on its results of operations and financial condition.

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115*." SFAS 159 provides companies with an option to report selected financial assets and liabilities at estimated fair value. Most of the provisions of SFAS No. 159 are elective; however, the amendment to SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, applies to all entities that own trading and available-for-sale securities. The fair value option created by SFAS No. 159 permits an entity to measure eligible items at fair value as of specified election dates. The fair value option (a) may generally be applied instrument by instrument, (b) is irrevocable unless a new election date occurs, and must be applied to the entire instrument and not to only a portion of the instrument.

SFAS No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of the fiscal year, has not yet issued financial statements for any interim period of such year, and also elects to apply the provisions of SFAS No. 157. The Company is currently evaluating the impact of SFAS 157 on its results of operations and financial condition.

On December 4, 2007, the FASB issued SFAS 141(R) "Business Combinations". SFAS 141R modifies the accounting for business combinations and requires, with limited exceptions, the acquiring entity in a business combination to recognize 100 percent of the assets acquired, liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date fair value. In addition, SFAS 141R limits the recognition of acquisition-related restructuring liabilities and requires the following: the expense of acquisition-related and restructuring costs and the acquirer to record contingent consideration measured at the acquisition date at fair value. SFAS 141R is effective for new acquisitions consummated on or after January 1, 2009. Early adoption is not permitted. The Company is currently evaluating the effect of this standard.

On December 4, 2007, the FASB issued SFAS No. 160 "Noncontrolling Interests in Consolidated Financial Statements" (SFAS 160). SFAS 160 requires all entities to report noncontrolling (i.e. minority interests) in subsidiaries as equity in the Consolidated Financial Statements and to account for transactions between an entity and noncontrolling owners as equity transactions if the parent retains its controlling financial interest in the subsidiary. SFAS 160 also requires expanded disclosure that distinguishes between the interests of a parent's owners and the interests of a noncontrolling owners of a subsidiary. SFAS 160 is effective for the Company's financial statements for the year beginning January 1, 2009 and early adoption is not permitted. The adoption of SFAS 160 is not expected to have a material impact on the Company's financial condition and results of operations.

**3. RETAINED INTEREST IN PURCHASED ACCOUNTS RECEIVABLE:**

Retained interest in purchased accounts receivable consists of the following:

|   | March 31,<br>2008   | December 31,<br>2007 |
|---|---------------------|----------------------|
| Purchased accounts receivable outstanding | \$ 2,432,713        | \$ 1,841,539         |
| Reserve account                           | (414,638)           | (308,616)            |
| Allowance for uncollectible accounts      | (24,611)            | (30,708)             |
|   | <u>\$ 1,993,464</u> | <u>\$ 1,502,215</u>  |

Total accounts receivable purchased were approximately \$6,038,000 and \$1,695,000 for the quarters ended March 31, 2008 and March 31, 2007, respectively.

Retained interest in purchased accounts receivable consists of United States companies in the following industries:

| <u>Industry</u> | March 31,<br>2008   | December 31,<br>2007 |
|-----------------|---------------------|----------------------|
| Staffing        | \$ 728,738          | \$ 656,020           |
| Transportation  | 648,925             | 218,264              |
| Publishing      | 3,364               | 6,000                |
| Construction    | 23,839              | 8,291                |
| Service         | 584,937             | 498,614              |
| Other           | 28,272              | 145,734              |
|                 | <u>\$ 2,018,075</u> | <u>\$ 1,532,923</u>  |

4. **PROPERTY AND EQUIPMENT:**

Property and equipment consist of the following:

|                               | Estimated<br>Useful Lives | March 31,<br>2008 | December 31,<br>2007 |
|-------------------------------|---------------------------|-------------------|----------------------|
| Furniture and fixtures        | 2-5 years                 | \$ 34,482         | \$ 33,960            |
| Computers and software        | 3-7 years                 | 99,318            | 93,866               |
|                               |                           | 133,800           | 127,826              |
| Less accumulated depreciation |                           | (47,313)          | (38,782)             |
|                               |                           | <u>\$ 86,487</u>  | <u>\$ 89,044</u>     |

5. **DUE FROM/TO FINANCIAL INSTITUTION:**

The Company had an agreement with a financial institution under which the institution financed their purchased accounts receivable. The institution received a fee of .3 percent of the receivables financed plus interest as described below. The Company terminated this agreement on July 16, 2007.

Borrowings were made at the request of the Company. The amount eligible to be borrowed was the lower of \$1,000,000 or a borrowing base formula as defined in the agreement. The interest on borrowings was paid monthly at a rate ranging from the institution's prime rate plus 1% to 12.75%.

The agreement was collateralized by all current and future Company assets and was guaranteed by the Company's majority shareholders.

6. **CAPITAL STRUCTURE:**

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

**Preferred Stock** – The Company is authorized to issue 10,000,000 shares of \$.001 par value preferred stock. The Company's Board of Directors determines the rights and preferences of its preferred stock.

On January 31, 2007, the Company filed a Certificate of Designation with the Secretary of State of Delaware. Effective with this filing, 2,000,000 preferred shares became Series 1 Convertible Preferred Stock. Series 1 Convertible Preferred Stock will rank senior to Common Stock.

Series 1 Convertible Preferred Stock is convertible into 5 shares of the Company's Common Stock. The holder of the Series 1 Convertible Preferred Stock has the option to convert the shares to Common Stock at any time. Upon conversion all accumulated and unpaid dividends will be paid as additional shares of Common Stock.

The dividend rate on Series 1 Convertible Preferred Stock is 8%. Dividends are paid annually on December 31st in the form of additional Series 1 Convertible Preferred Stock unless the Board of Directors approves a cash dividend. Dividends on Series 1 Convertible Preferred Stock shall cease to accrue on the earlier of December 31, 2009, or on the date they are converted to Common Shares. Thereafter, 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. Accrued dividends at March 31, 2008 and December 31, 2007 were \$135,066 and \$405,995 respectively.

**Common Stock** – The Company is authorized to issue 40,000,000 shares of \$.001 par value Common Stock. Each share of Common Stock entitles the holder to one vote at all stockholder meetings. Dividends on Common Stock will be determined annually by the Company’s Board of Directors.

The changes in Series 1 Convertible Preferred Stock and Common Stock shares for the three months ended March 31, 2008 is summarized as follows:

|  | Series 1<br>Convertible<br>Preferred<br>Stock | Common<br>Stock   |
|--|---|-------------------|
| Beginning Balance, December 31, 2007   | 1,342,500                                     | 11,820,555        |
| Shares issued in exchange with dividend on preferred shares                            | 94,865  | -                 |
| Shares issued (redeemed) in connection conversion of preferred shares to common shares | (120,000)                                     | 606,690           |
| Ending Balance, March 31, 2008   | <u>1,317,365</u>                              | <u>12,427,245</u> |

**7. RELATED PARTY TRANSACTION:**

The Company used the administrative staff and facilities of a limited liability company (LLC) related through common ownership. The services provided by the LLC consisted primarily of rent, credit, collection, invoicing, payroll and bookkeeping. The Company paid the LLC a fee for these services. The fee was computed as a percentage of accounts receivable purchased by the Company. The administrative fee charged by the LLC was \$0 and \$6,800 for the quarters ended March 31, 2008 and 2007, respectively.

**8. EXCHANGE TRANSACTION:**

On January 31, 2007, Anchor Funding Services, LLC and its members entered into a Securities Exchange Agreement with BTHC XI, Inc. The members namely, George Rubin, Morry Rubin (“M. Rubin”) and Ilissa Bernstein exchanged their units in Anchor Funding Services, LLC for an aggregate of 8,000,000 common shares of BTHC XI, Inc. issued to George Rubin (2,400,000 shares), M. Rubin (3,600,000 shares) and Ilissa Bernstein (2,000,000 shares). Upon the closing of this transaction Anchor Funding Services, LLC became a wholly-owned subsidiary of BTHC XI, Inc.

At the time of this transaction, BTHC XI, Inc. had no operations and no assets or liabilities. After this transaction the former members of Anchor Funding Services, LLC owned approximately 67.7% of the outstanding common stock of BTHC XI, Inc.

This transaction was accounted for as a purchase. There was no market value for the common shares of BTHC XI, Inc. or the membership units of Anchor Funding Services, LLC at the transaction date. Accordingly, BTHC XI, Inc. recorded the membership units received in Anchor Funding Services, LLC at Anchor Funding Service LLC's net asset value as of the transaction date.

**9. EMPLOYMENT AND STOCK OPTION AGREEMENTS:**

At closing of the exchange transaction described above, M. Rubin and Brad Bernstein ("B. Bernstein"), the husband of Ilissa Bernstein and President of the Company, entered into employment contracts and stock option agreements with the BTHC XI, Inc. Additionally, at closing two non-employee directors entered into stock option agreements with BTHC XI, Inc.

The following summarizes M. Rubin's employment agreement and stock options:

- The employment agreement with M. Rubin retains his services as Co-chairman and Chief Executive Officer for a three-year period.
- An annual salary of \$1 until, the first day of the first month following such time as BTHC XI, Inc. shall have, within any period beginning on January 1 and ending not more than 12 months thereafter, earned pre-tax net income exceeding \$1,000,000, M. Rubin's base salary shall be adjusted to an amount, to be mutually agreed upon between M. Rubin and BTHC XI, Inc., reflecting the fair value of the services provided, and to be provided, by M. Rubin taking into account (i) his position, responsibilities and performance, (ii) BTHC XI, Inc.'s industry, size and performance, and (iii) other relevant factors. M. Rubin is eligible to receive annual bonuses as determined by BTHC XI, Inc.'s compensation committee. M. Rubin shall be entitled to a monthly automobile allowance of \$1,500.
- 10-year options to purchase 650,000 shares exercisable at \$1.25 per share, pursuant to BTHC XI, Inc.'s 2007 Omnibus Equity Compensation Plan. Vesting of the options is one-third immediately, one-third on February 29, 2008 and one-third on February 28, 2009, provided that in the event of a change in control or M. Rubin is terminated without cause or M. Rubin terminates for good reason, all unvested options shall accelerate and immediately vest and become exercisable in full on the earliest of the date of change in control or date of M. Rubin's voluntary termination or by BTHC XI, Inc. without cause.

The following summarizes B. Bernstein's employment agreement and stock options:

- The employment agreement with B. Bernstein retains his services as President for a three-year period.

- An annual salary of \$205,000 during the first year, \$220,000 during the second year and \$240,000 during the third year and any additional year of employment. The Board may periodically review B. Bernstein's base salary and may determine to increase (but not decrease) the base salary in accordance with such policies as BTHC XI, Inc. may hereafter adopt from time to time. B. Bernstein is eligible to receive annual bonuses as determined by BTHC XI, Inc.'s compensation committee. B. Bernstein shall be entitled to a monthly automobile allowance of \$1,000.
- 10-year options to purchase 950,000 shares exercisable at \$1.25 per share, pursuant to BTHC XI, Inc.'s 2007 Omnibus Equity Compensation Plan. Vesting of the options is one-third immediately, one-third on February 29, 2008 and one-third on February 28, 2009, provided that in the event of a change in control or B. Bernstein is terminated without cause or B. Bernstein terminates for good reason, all unvested options shall accelerate and immediately vest and become exercisable in full on the earliest of the date of change in control or date of B. Bernstein's voluntary termination or by BTHC XI, Inc. without cause.

The following summarizes stock option agreements entered into with two directors:

- 10-year options to purchase 360,000 shares exercisable at \$1.25 per share, pursuant to BTHC XI, Inc.'s 2007 Omnibus Equity Compensation Plan. Vesting of the options is one-third immediately, one-third on February 29, 2008 and one-third on February 28, 2009. If either director ceases serving BTHC XI, Inc. for any reason, all unvested options shall terminate immediately and all vested options must be exercised within 90 days after the director ceases serving as a director.

The following summarizes stock option agreements entered into with two managerial employees:

- 10-year options to purchase 10,000 shares exercisable at \$1.25 per share, pursuant to the Company's 2007 Omnibus Equity Compensation Plan. The grant date was September 28, 2007. Vesting of the fair value of the options is one-fourth on September 28, 2008, one-fourth on September 28, 2009, one-fourth on September 28, 2010 and one-fourth on September 28, 2011. If either employee ceases being employed by the Company for any reason, all vested and unvested options shall terminate immediately.

The following summarizes a stock subscription agreement entered into with an unrelated individual:

- Pursuant to a subscription agreement entered into on December 11, 2007, the Company awarded 25,000 shares of common stock, at \$1 per share, in exchange for a full recourse note receivable of \$25,000. This transaction was accounted for in accordance with SFAS 123(R).

The following table summarizes information about stock options as of March 31, 2008:

| Exercise Price | Number Outstanding | Weighted Average Remaining Contractual Life | Number Exercisable |
|----------------|--------------------|---|--------------------|
| \$1.25         | 1,970,000          | 10 years                                    | 653,000            |

BTHC XI, Inc. will record the issuance of these options as of March 31, 2008 in accordance with SFAS No. 123(R). The following information was input into a Black Scholes option pricing model to compute a per option price of \$.0468:

|                |          |
|----------------|----------|
| Exercise price | \$1.25   |
| Term           | 10 years |
| Volatility     | 2.5      |
| Dividends      | 0%       |
| Discount rate  | 4.75%    |

The financial effect of these options to record over their life is as follows:

|                  |               |
|------------------|---------------|
| Options to value | 1,970,000     |
| Option price     | \$ 0.0468     |
|                  | <u>92,196</u> |

The pre-tax fair value recorded for these options in the statement of operations for the quarters ending March 31, 2008 and 2007 was as follows:

|                                  | March 31,<br>2008 | March 31,<br>2007 |
|----------------------------------|-------------------|-------------------|
| Fully vested stock options       | \$ 2,080          | \$ 41,900         |
| Unvest portions of stock options | <u>4,318</u>      | <u>4,184</u>      |
|                                  | <u>\$ 6,398</u>   | <u>\$ 46,084</u>  |

#### 10. SALE OF CONVERTIBLE PREFERRED STOCK:

From February 1, 2007 to April 5, 2007 the Company sold 1,342,500 shares of convertible preferred stock to accredited investors. The gross proceeds, transaction expenses and net proceeds of these transactions were as follows:



|                                  |                            |
|----------------------------------|----------------------------|
| Gross proceeds                   | \$ 6,712,500               |
| Cash fees:                       |                            |
| Placement agent                  | (951,483)                  |
| Legal and accounting             | (218,552)                  |
| Blue sky                         | (39,348)                   |
| Net cash proceeds                | <u>\$ 5,503,117</u>        |
| Non-cash fees:                   |                            |
| Placement agents fees - warrants | (62,695)                   |
| Net proceeds                     | <u><u>\$ 5,440,422</u></u> |

The placement agent was issued warrants to purchase 1,342,500 shares of the Company's common stock. The following information was input into a Black Scholes option pricing model to compute a per warrant price of \$.0462:

|                |         |
|----------------|---------|
| Exercise price | \$ 1.10 |
| Term           | 5 years |
| Volatility     | 2.5     |
| Dividends      | 0%      |
| Discount rate  | 4.70%   |

The following table summarizes information about stock warrants as of March 31, 2008:

| Exercise Price | Number Outstanding | Weighted Average Remaining Contractual Life | Number Exercisable |
|----------------|--------------------|---|--------------------|
| \$1.10         | 1,342,500          | 5 years                                     | 1,342,500          |

#### 11. CONCENTRATIONS:

**Revenues** – During the quarters ending March 31, 2008 and March 31, 2007, the Company recorded revenues from United States companies in the following industries:

| <u>Industry</u> | March 31,<br>2008 | March 31,<br>2007 |
|-----------------|-------------------|-------------------|
| Staffing        | \$ 83,101         | \$ 81,816         |
| Transportation  | 50,815            | 7,287             |
| Publishing      | 0                 | 798               |
| Construction    | 1,367             | 2,286             |
| Service         | 61,780            | 3,729             |
| Other           | 14,598            | 4,190             |
|                 | <u>\$ 211,661</u> | <u>\$ 100,106</u> |

**Major Customers** – The Company had the following transactions and balances with unrelated customers (2 in quarter ending March 31, 2008 and 5 in quarter ending March 31, 2007) which represent 10 percent or more of its revenues for the quarters ending March 31, 2008 and 2007 as follows:

For the quarter ended March 31, 2008

|          |                 |                 |  |
|----------|-----------------|-----------------|--|
| Revenues | <u>\$30,534</u> | <u>\$26,360</u> |  |
|----------|-----------------|-----------------|--|

As of March 31, 2008

|   |                  |                  |  |
|---|------------------|------------------|--|
| Purchased accounts receivable outstanding | <u>\$170,527</u> | <u>\$395,317</u> |  |
|---|------------------|------------------|--|

For the quarter ended March 31, 2007

|          |                 |                 |                 |                |                 |
|----------|-----------------|-----------------|-----------------|----------------|-----------------|
| Revenues | <u>\$11,867</u> | <u>\$13,049</u> | <u>\$13,644</u> | <u>\$8,373</u> | <u>\$11,234</u> |
|----------|-----------------|-----------------|-----------------|----------------|-----------------|

As of March 31, 2007

|   |                  |                  |                  |                 |          |
|---|------------------|------------------|------------------|-----------------|----------|
| Purchased accounts receivable outstanding | <u>\$112,571</u> | <u>\$189,323</u> | <u>\$179,103</u> | <u>\$92,269</u> | <u>-</u> |
|---|------------------|------------------|------------------|-----------------|----------|

**Cash** – The Company maintains cash deposits with a bank. At various times throughout the year, these balances exceeded the federally insured limit of \$100,000.

**12. SUPPLEMENTAL DISCLOSURES OF CASH FLOW:**

Cash paid for interest for the quarters ended March 31, 2008 and 2007 was \$0 and \$4,100, respectively.

Non-cash financing and investing activities consisted of the following:

For the quarter ending March 31, 2008-

94,685 preferred shares issued in satisfaction of the accrued dividend obligation as of December 31, 2007 (See Note 6).

Exchange of 120,000 preferred shares for 606,690 of common shares (see Note 6).

For the quarter ending March 31, 2007-

8,000,000 shares of common stock were issued in exchange for 100,000 membership units of Anchor Funding Services, LLC (see Note 8). In connection with this exchange, the Company acquired cash of \$6,270.

1,960,000 stock options were issued to the Company's President, CEO, two non-employee directors and an unrelated individual (see Note 9).

1,332,500 stock warrants were issued to the placement agent handling the sale of the Company's convertible preferred stock (see Note 10).

**13. INCOME TAXES:**

The income tax benefit for the quarters ending March 31, 2008 and 2007 consists of the following:

|                   | March 31,<br>2008 | March 31,<br>2007 |
|-------------------|-------------------|-------------------|
| Current provision | \$ 0              | \$ 0              |
| Deferred benefit  | 166,000           | 48,000            |
|                   | 166,000           | 48,000            |
| Valuation reserve | (166,000)         | (33,000)          |
|                   | <u>\$ 0</u>       | <u>\$ 15,000</u>  |

The net operating loss carryforward generated in the quarters ending March 31, 2008 and 2007 was approximately \$421,000 and \$99,000, respectively. The deferred tax assets related to these net operating loss carryforwards was approximately \$166,000 and \$33,000 as March 31, 2008 and 2007, respectively. These deferred tax assets have been reduced by valuation allowances. Management is uncertain if this net operating loss will ever be utilized, therefore it has been fully reserved.

**14. FACILITY LEASES:**

In May 2007, the Company executed lease agreements for office space in Charlotte, NC and Boca Raton, FL. Both lease agreements are with unrelated parties.

The Charlotte lease is effective on August 15, 2007, is for a twenty-four month term and includes an option to renew for an additional three year term at substantially the same terms. On November 1, 2007, the Company entered into a lease for additional space adjoining its Charlotte office. The lease is for 19 months and includes a two year renewal option at substantially the same terms. The monthly rental for the combined space is approximately \$2,250.

The Boca Raton lease was effective on August 20, 2007 and is for a sixty-one month term. The monthly rental is approximately \$8,300.

The rental expense for the quarter ending March 31, 2008 was approximately \$34,300.

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

You should read the following discussion and analysis of our financial condition and plan of operation together with our consolidated financial statements and the related notes appearing at the end of our Form 10-KSB for the fiscal year ended December 31, 2007. Some of the information contained in this discussion and analysis or set forth elsewhere in this form 10-QSB, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties. You should review the "Risk Factors" section of our Form 10-KSB for the fiscal year ended December 31, 2007 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.

This Form 10-QSB contains forward-looking statements. These statements relate to our expectations for future events and future financial performance. Generally, the words "anticipate," "expect," "intend" and similar expressions identify forward-looking statements. Forward-looking statements involve risks and uncertainties, and future events and circumstances could differ significantly from those anticipated in the forward-looking statements. These statements are only predictions. Actual events or results may differ materially. Factors which could affect our financial results are described in the "Risk Factors" included herein. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. We undertake no duty to update any of the forward-looking statements after the date of this report to conform such statements to actual results or to changes in our expectations.

### Executive Overview

Our business objective is to create a well-recognized, national financial services firm for small businesses providing accounts receivable funding (factoring), outsourcing of accounts receivable management including collections and the risk of customer default. For certain service businesses, Anchor also provides back office support including payroll, payroll tax compliance and invoice processing services. We provide our services to clients nationwide and may expand our services internationally in the future. We plan to achieve our growth objectives as described below through a combination of strategic and add-on acquisitions of other factoring and related specialty finance firms that serve small businesses in the United States and Canada and internal growth through mass media marketing initiatives. Our principal operations are located in Charlotte, North Carolina and we maintain an executive office in Boca Raton, Florida which includes its sales and marketing functions.

### 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. 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 and litigation and income taxes. Management bases its estimates and judgments on historical experience and on 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.

## Summary of Critical Accounting Policies and Estimates

**Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Revenue Recognition** – The Company charges fees to its customers in one of two ways as follows:

- 1) **Fixed Transaction Fee.** Fixed transaction fees are a fixed percentage of the purchased invoice. This percentage does not change from the date the purchased invoice is funded until the date the purchased invoice is collected.
- 2) **Variable Transaction Fee.** Variable transaction fees are variable based on the length of time the purchased invoice is outstanding. As specified in its contract with the client, the Company charges variable increasing percentages of the purchased invoice as time elapses from the purchase date to the collection date.

For both Fixed and Variable Transaction fees, the Company recognizes revenue by using one of two methods depending on the type of customer. For new customers the Company recognizes revenue using the cost recovery method. For established customers the Company recognizes revenue using the accrual method.

Under the cost recovery method, all revenue is recognized upon collection of the entire amount of purchased accounts receivable.

The Company considers new customers to be accounts whose initial funding has been within the last three months or less. Management believes it needs three months of history to reasonably estimate a customer's collection period and accrued revenues. If three months of history has a limited number of transactions, the cost recovery method will continue to be used until a reasonable revenue estimate can be made based on additional history. Once the Company obtains sufficient historical experience, it will begin using the accrual method to recognize revenue.

For established customers the Company uses the accrual method of accounting. The Company applies this method by multiplying the historical yield, for each customer, times the amount advanced on each purchased invoice outstanding for that customer, times the portion of a year that the advance is outstanding. The customers' historical yield is based on the Company's last six months of experience with the customer along with the Company's experience in the customer's industry, if applicable.

The amounts recorded as revenue under the accrual method described above are estimates. As purchased invoices are collected, the Company records the appropriate adjustments to record the actual revenue earned on each purchased invoice. These adjustments from the estimated revenue to the actual revenue have not been material.

**Retained Interest in Purchased Accounts Receivable** – Retained interest in purchased accounts receivable represents the gross amount of invoices purchased from factoring customers less amounts maintained in a reserve account. The Company purchases a customer's accounts receivable and advances them a percentage of the invoice total. The difference between the purchase price and amount advanced is maintained in a reserve account. The reserve account is used to offset any potential losses the Company may have related to the purchased accounts receivable.

The Company's factoring and security agreements with their customers include various recourse provisions requiring the customers to repurchase accounts receivable if certain conditions, as defined in the factoring and security agreement, are met.

Senior management reviews the status of uncollected purchased accounts receivable monthly to determine if any are uncollectible. The Company has a security interest in the accounts receivable purchased and on a case-by-case basis, may have additional collateral. The Company files security interests in the property securing their advances. Access to this collateral is dependent upon the laws and regulations in each state where the security interest is filed. Additionally, the Company has varying types of personal guarantees from their factoring customers relating to the purchased accounts receivable.

Management considered approximately \$24,600 of their March 31, 2008 retained interest in purchased accounts receivable to be uncollectible. Management did not consider any of the March 31, 2007 retained interest in purchased accounts receivable uncollectible based on their analysis of the portfolio.

Management believes the fair value of the retained interest in purchased accounts receivable approximates its recorded value because of the relatively short term nature of the purchased receivable and the fact that the majority of these invoices have been subsequently collected.

**Property and Equipment** – Property and equipment, consisting of furniture and fixtures and computers and software, are stated at cost. Depreciation is provided over the estimated useful lives of the depreciable assets using the straight-line method.

**Advertising Costs** – The Company charges advertising costs to expense as incurred. Total advertising costs were approximately \$151,400 and \$31,700 for the quarters ending March 31, 2008 and 2007, respectively.

**Earnings per Share** – The Company computes net income per share in accordance with SFAS No. 128 “Earnings Per Share.” Basic net income per share is computed by dividing the net income for the period by the weighted average number of common shares outstanding during the period. The impact of convertible preferred stock, stock options and stock warrants were excluded since their impact would have been anti-dilutive. The dilutive effect of stock options and warrants is computed using the treasury stock method, which assumes the repurchase of common shares at the average market price.

**Stock Based Compensation until December 31, 2005** - In December 2004, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“SFAS”) No. 123(R), “Accounting for Stock-Based Compensation.” SFAS No. 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. This statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123(R) requires that the fair value of such equity instruments be recognized as an expense in the historical financial statements as services are performed. Prior to SFAS No. 123(R), only certain pro forma disclosures of fair value were required. The provisions of this statement were effective for the first interim reporting period that began after December 15, 2005. The Company adopted the provisions of SFAS No.123(R) in the first quarter of fiscal 2006.

See Note 9 for the SFAS No. 123(R) impact on the operating results for the quarters ended March 31, 2008 and 2007.

**Fair Value of Financial Instruments** – The carrying value of cash equivalents, retained interest in purchased accounts receivable, due from/to financial institution, accounts payable and accrued liabilities approximates their fair value.

**Cash and cash equivalents** – Cash and cash equivalents consist primarily of highly liquid cash investment funds with original maturities of three months or less when acquired.

**Income Taxes** – Effective January 31, 2007, the Company became a “C” corporation for income tax purposes. In a “C” corporation income taxes are provided for the tax effects of transactions reported in the financial statements plus deferred income taxes related to the differences between financial statement and taxable income.

The primary differences between financial statement and taxable income for the Company are as follows:

- Compensation costs related to the issuance of stock options
- Use of the reserve method of accounting for bad debts
- Differences in bases of property and equipment between financial and income tax reporting
- Net operating loss carryforwards.

The deferred tax asset represents the future tax return consequences of utilizing these items. Deferred tax assets are reduced by a valuation reserve, when management is uncertain if the net deferred tax assets will ever be realized.

Prior to January 31, 2007, Anchor Funding Services, LLC was treated as a partnership for Federal and state income tax purposes. Its earnings and losses were included in the personal tax returns of its members; therefore, no provision or benefit from income taxes has been included in those financial statements.

In July 2006, FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes—an interpretation of SFAS No. 109” (“FIN 48”), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that the Company recognize in its consolidated financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 became effective for the Company on January 1, 2007.

The Company applied FIN 48 to all its tax positions, including tax positions taken and those expected to be taken, under the transition provision of the interpretation. As a result of the implementation of FIN 48, the Company recognized no increases or decreases in its recorded tax liabilities or 2006 retained earnings.

For the quarters ended March 31, 2008 and 2007, the Company recognized no liability for uncertain tax positions.

The Company classifies interest accrued on unrecognized tax benefits with interest expense. Penalties accrued on unrecognized tax benefits are classified with operating expenses.

#### **Recent Accounting Pronouncements –**

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 157, “*Fair Value Measurements*.” SFAS 157 provides enhanced guidance for using fair value to measure assets and liabilities. It clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS 157 on its results of operations and financial condition.

In February 2007, the FASB issued SFAS No. 159, “*The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115*.” SFAS 159 provides companies with an option to report selected financial assets and liabilities at estimated fair value. Most of the provisions of SFAS No. 159 are elective; however, the amendment to SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, applies to all entities that own trading and available-for-sale securities. The fair value option created by SFAS No. 159 permits an entity to measure eligible items at fair value as of specified election dates. The fair value option (a) may generally be applied instrument by instrument, (b) is irrevocable unless a new election date occurs, and must be applied to the entire instrument and not to only a portion of the instrument.

SFAS No. 159 is effective as of the beginning of an entity’s first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of the fiscal year, has not yet issued financial statements for any interim period of such year, and also elects to apply the provisions of SFAS No. 157. The Company is currently evaluating the impact of SFAS 157 on its results of operations and financial condition.

On December 4, 2007, the FASB issued SFAS 141(R) “*Business Combinations*”. SFAS 141R modifies the accounting for business combinations and requires, with limited exceptions, the acquiring entity in a business combination to recognize 100 percent of the assets acquired, liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date fair value. In addition, SFAS 141R limits the recognition of acquisition-related restructuring liabilities and requires the following: the expense of acquisition-related and restructuring costs and the acquirer to record contingent consideration measured at the acquisition date at fair value. SFAS 141R is effective for new acquisitions consummated on or after January 1, 2009. Early adoption is not permitted. The Company is currently evaluating the effect of this standard.

On December 4, 2007, the FASB issued SFAS No. 160 “*Noncontrolling Interests in Consolidated Financial Statements*” (SFAS 160). SFAS 160 requires all entities to report noncontrolling (i.e. minority interests) in subsidiaries as equity in the Consolidated Financial Statements and to account for transactions between an entity and noncontrolling owners as equity transactions if the parent retains its controlling financial interest in the subsidiary. SFAS 160 also requires expanded disclosure that distinguishes between the interests of a parent’s owners and the interests of a noncontrolling owner of a subsidiary. SFAS 160 is effective for the Company’s financial statements for the year beginning January 1, 2009 and early adoption is not permitted. The adoption of SFAS 160 is not expected to have a material impact on the Company’s financial condition and results of operations.

## Results of Operations

### Three Months Ended March 31, 2008 vs. Three Months Ended March 31, 2007

Finance revenues for the three months ended March 31, 2008 were \$211,661 compared to \$100,106 for the comparable period of the prior year (a 111.4% increase). The change in revenue was primarily due to an increase in the number of clients. As of March 31, 2008, the Company had 64 active clients compared to 12 clients as of March 31, 2007.

Interest income (expense), net for the three months ended March 31, 2008 was \$23,617 compared to \$24,775 for the comparable period of the prior year (a \$1,158 decrease). Beginning in February 2007, the Company began using the proceeds from the sale of Series 1 Preferred Stock to fund its acquisition of accounts receivable instead of borrowing from its lender. The Company anticipates that interest income will continue to decrease as excess cash on hand is used to fund the purchase of accounts receivable as more new clients are added.

The Company had a benefit for recoveries of \$6,096 for the three months ended March 31, 2008 compared to a provision for credit losses for the three months ended March 31, 2007 of \$0.

Operating expenses for the three months ended March 31, 2008 were \$664,255 compared to \$269,788 for the comparable period of the prior year (a 146.2% increase). This increase is primarily attributable to the Company's incurring additional costs for increased payroll, marketing, professional, rent, insurance and other operating expenses to grow Anchor's core business, build an infrastructure to support anticipated growth and operate as a publicly reporting company. In addition, the Company began leasing its own offices in Charlotte on June 1, 2007 and opened an Executive and Sales office in Boca Raton, Florida in August, 2007.

Management received \$64,864 in compensation for the three months ended March 31, 2008 as compared to \$34,173 for the comparable period of the prior year.

Net Loss for the three months ended March 31, 2008 was \$(422,881) compared to \$(129,907) for the comparable period of the prior year. The increase in net loss is the result of increases in net finance revenues (\$110,937) being offset by an increase in operating costs (\$ 394,467).

The following table compares the operating results for the three months ended March 31, 2008 and March 31, 2007:

|   | Three Months Ended March 31, |              | \$ Change    | % Change |
|---|------------------------------|--------------|--------------|----------|
|   | 2008                         | 2007         |              |          |
| Finance revenues  | \$ 211,661                   | \$ 100,106   | \$ 111,555   | 111.4    |
| Interest income (expense), net                              | 23,617                       | 24,775       | (1,158)      | (4.7)    |
| Net finance revenues  | 235,278                      | 124,881      | 110,397      | 88.4     |
| Benefit for recoveries (Provision for credit losses)        | 6,096                        |              | 6,096        |          |
| Finance revenues, net of interest expense and credit losses | 241,374                      | 124,881      | 116,493      | 93.3     |
| Operating expenses  | 664,255                      | 269,788      | 394,467      | 146.2    |
| Net income (loss) before income taxes                       | (422,881)                    | (144,907)    | (277,974)    | 191.8    |
| Income tax (provision) benefit:                             |                              | 15,000       | (15,000)     |          |
| Net income (loss)   | \$ (422,881)                 | \$ (129,907) | \$ (292,974) | 225.5    |

**Finance revenue.** Finance revenues for the three months ended March 31, 2008 were \$211,661 compared to \$100,106 for the comparable period of the prior year (a 111.4% increase). Anchor had 64 active clients as of March 31, 2008 compared to 12 for the comparable period of the prior year.

**Interest income (expense).** Interest income (expense), net for the three months ended March 31, 2008 was \$23,617 compared to \$24,775 for the comparable period of the prior year (a \$1,158 decrease). Beginning in February 2007, the Company began using the proceeds from the sale of Series 1 Preferred Stock to fund its acquisition of accounts receivable instead of borrowing from its lender. The Company anticipates that interest income will continue to decrease as excess cash on hand is used to fund the purchase of accounts receivable as more new clients are added.

**Provision for credit losses.** Anchor has reviewed its portfolio of accounts receivable purchased and determined that it had \$6,096 credit recoveries for the three months ended March 31, 2008 and \$0 credit losses for the comparable period of the prior year.

**Operating expenses.** Operating expenses are primarily selling, general and administrative ("SG&A") expenses. Operating expenses for the three months ended March 31, 2008 increased by \$394,467, compared to the comparable period of the prior year. This increase is primarily attributable to the company's incurring additional costs for increased payroll, marketing, professional and other operating expenses to grow Anchor's core business, build an infrastructure to support anticipated growth and operate as a publicly reporting company. In addition, the Company began leasing its own offices in Charlotte on June 1, 2007 and opened an Executive and Sales office in Boca Raton, Florida in August, 2007.



Key changes in certain selling, general and administrative expenses:

|                                     | Three Months Ended<br>March 31, |                   | \$ Change         | Explanation  |
|-------------------------------------|---------------------------------|-------------------|-------------------|--|
|                                     | 2008                            | 2007              |                   |  |
| Professional fees                   | \$ 76,344                       | \$ 64,324         | \$ 12,020         | Increased cost for 2007 audit. Additional legal fees for corporate matters.            |
| Payroll, payroll taxes and benefits | 254,786                         | 68,518            | 186,268           | Increased payroll and health benefits for sales and back office personnel.             |
| Advertising                         | 154,881                         | 31,685            | 123,196           | Increased marketing  |
| Insurance                           | 21,859                          | 13,377            | 8,482             | Premiums for insurance policies including Directors and Officers and fidelity policies |
| Rent                                | 34,604                          |                   | 34,604            | Rent expense for North Carolina and Florida offices.                                   |
|                                     | <u>\$ 507,870</u>               | <u>\$ 177,904</u> | <u>\$ 329,966</u> |  |

Client Accounts

As of and for the three months ended March 31, 2008, we have four clients that account for an aggregate of approximately 34% of our accounts receivable portfolio and approximately 40% of our revenues. The transactions and balances with these clients as of and for the three months ended March 31, 2008 is summarized below:

| Entity  | Percentage of<br>Accounts<br>Receivable<br>Portfolio | Percentage of<br>Revenues For<br>The Three<br>Months<br>Ended<br>March 31,<br>2008 |
|---|--|--|
|   | As of March<br>31, 2008                              | March 31,<br>2008  |
| Staffing Company in New Jersey                      | 7.00%  | 14.43%   |
| Medical Staffing Company in New York                | 5.10%  | 6.84%  |
| Medical Staffing Company in New York                | 16.25%   | 12.45%   |
| Intellectual Technology Consulting Firm in Maryland | 5.44%  | 5.80%  |

A client's fraud could cause us to suffer material losses.

Liquidity and Capital Resources

**Cash Flow Summary**

**Cash Flows from Operating Activities**

Net cash used by operating activities was \$929,003 for the three months ended March 31, 2008 and was primarily due to our net loss for the period and cash used in acquiring operating assets, primarily to purchase accounts receivable. Cash used for operating assets and liabilities was primarily due to an increase of \$491,249 in retained interest in accounts receivable. Increases and decreases in prepaid expenses, accounts payable, accrued payroll and accrued expenses were primarily the result of timing of payments and receipts.

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

For the three months ended March 31, 2008, net cash used in investing activities was \$5,973 for the purchase of property and equipment.

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

Net cash provided by financing activities was \$0 for the three months ended March 31, 2008.

Between January 31, 2007 and April 5, 2007, we raised \$6,712,500 in gross proceeds from the sale of 1,342,500 shares of our Series 1 Convertible Preferred Stock to expand our operations both internally and through possible acquisitions as more fully described under “Description of Business.”

### **Capital Resources**

We previously had the availability of a \$1 million line of credit through September 5, 2007 with an institutional asset based lender which advanced funds against “eligible accounts receivable” as defined in Anchor’s agreement with its institutional lender. This facility, which was secured by our assets, contained certain covenants related to tangible net worth and change in control. In the event that we failed to comply with the covenant(s) and the lender did not waive such non-compliance, we would have been in default of our credit agreement, which could have subjected us to penalty rates of interest and accelerate the maturity of the outstanding balances. On June 28, 2007, we notified our lender of our desire to terminate the facility agreement immediately and the lender subsequently agreed to our request. Prior to us completing any significant acquisitions, for the success of which no assurances can be given, we intend to seek to obtain a new credit facility and attempt to obtain better lending terms. In the event we are not able to obtain adequate credit facilities for our factoring and acquisition needs on commercially reasonable terms, our ability to operate our business and complete one or more acquisitions would be significantly impacted and our financial condition and results of operations could suffer. As of March 31, 2008, we have no line of credit.

We are not reliant on loans from related parties. Based on our current cash position, we believe can meet our cash needs for the next 12 to 18 months and support our anticipated organic growth. In the event we acquire another company, particularly one with a large cash purchase price, we may need additional financing to complete the transaction and our daily cash needs and liquidity could change based on the needs of the combined companies. At that time, in the event we are not able to obtain a sufficient line of credit to complete the acquisition (if needed) and to operate the combined companies financing needs on commercially reasonable terms, our ability to operate our business would be significantly impacted and our financial condition and results of operations could suffer.

**ITEM 3. CONTROLS AND PROCEDURES**

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-15(e). In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level at the end of our most recent quarter. There have been no changes in the Company's disclosure controls and procedures or in other factors that could affect the disclosure controls subsequent to the date the Company completed its evaluation. Therefore, no corrective actions were taken.

Management has not yet completed, and is not yet required to have completed, its assessment of the effectiveness of internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002, as amended.

**PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS:**

As of the filing date of this Form 10-QSB, we are not a party to any pending legal proceedings.

**ITEM 2. CHANGES IN SECURITIES.**

- (a) For the three months ended March 31, 2008 there were no sales of unregistered securities, except as follows:

| <b>Date of Sale</b> | <b>Title of Security</b> | <b>Number Sold</b>                      | <b>Consideration Received, Commissions</b>   | <b>Purchasers</b>      | <b>Exemption from Registration Claimed</b>  |
|---------------------|--------------------------|---|--|------------------------|---|
| February 21, 2008   | Common Stock             | Options to purchase 2,000 common shares | Securities granted under Equity Compensation Plan; no cash received; no commissions paid | Directors and Officers | Section 4(2) of the Securities Act of 1933 and/or Rule 506 promulgated thereunder (6) |

- (b) Rule 463 of the Securities Act is not applicable to the Company.

- (c) In the three months ended March 31, 2008, there were no repurchases by the Company of its Common Stock.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. SUBMISSIONS OF MATTERS TO A VOTE OF SECURITY HOLDERS:**

Not applicable.

**ITEM 5. OTHER INFORMATION:**

Not applicable.

**ITEM 6. EXHIBITS:**

Except for the exhibits listed below as filed herewith or unless otherwise noted, all other required exhibits have been previously filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, on Form 10-SB, as amended (file no.0-52589).

| Exhibit Number | Description   |
|----------------|---|
| 2.1            | Exchange Agreement  |
| 3.1            | Certificate of Incorporation-BTHC,INC.  |
| 3.2            | Certificate of Merger of BTHC XI, LLC into BTHC XI, Inc.  |
| 3.3            | Certificate of Amendment  |
| 3.4            | Designation of Rights and Preferences-Series 1 Convertible Preferred Stock  |
| 3.5            | Amended and Restated By-laws  |
| 4.1            | Form of Placement Agent Warrant issued to Fordham Financial Management  |
| 10.1           | Directors' Compensation Agreement-George Rubin  |
| 10.2           | Employment Contract-Morry F. Rubin  |
| 10.3           | Employment Contract-Brad Bernstein  |
| 10.4           | Agreement-Line of Credit  |
| 10.5           | Fordham Financial Management-Consulting Agreement   |
| 10.6           | Facilities Lease – Florida  |
| 10.7           | Facilities Lease – North Carolina   |
| 10.8           | Second Facilities Lease-North Carolina (1)  |
| 10.9           | Facilities Lease for Additional Space – Charlotte, NC*  |
| 11             | Statement-re:Compensation of earnings per share-See Consolidated Statements of operations and notes to financial statements |
| 31.1           | Chief Executive Officer Rule 13a-14(a)/15d-14(a) Certification *  |
| 31.2           | Chief Financial Officer Rule 13a-14(a)/15d-14(a) Certification *  |
| 32.1           | Chief Executive Officer Section 1350 Certification *  |
| 32.2           | Chief Financial Officer Section 1350 Certification *  |
| 99.1           | 2007 Omnibus Equity Compensation Plan   |
| 99.2           | Form of Non-Qualified Option under 2007 Omnibus Equity Compensation Plan  |
| 99.3           | Press Release – First Quarter Earnings*   |

\*Filed herewith.

(1) Incorporated by reference to the Registrant's Form 10-QSB/A for the quarter ended June 30, 2007.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

**ANCHOR FUNDING SERVICES, INC.**

Date: May 13, 2008

By: /s/ Morry F. Rubin

Morry F. Rubin  
Chief Executive Officer

Date: May 13, 2008

By: /s/ Brad Bernstein

Brad Bernstein  
President and Chief Financial Officer

Highland Realty 8, Development
10801 Johnston Road
Charlotte, NC 28226
Phone: 704-542-8348, Fax: 704-542-8281

REALTOR\*
Commercial Alliance
REALTOR\* North Carolina Association
of REALTORS®

COMMERCIAL LEASE AGREEMENT
(Multi-Tenant Facility)

THIS LEASE AGREEMENT, including any and all addenda attached hereto ("Lease"), is by and between

Fran Baltmiskis
, a(n) an individual ("Landlord"),
(individual or State of formation and type of entity)
whose address is 10801 Johnston Rd., Suite 214, Charlotte, N.C.
28226 and

Anchor Funding Services, LLC

, a(n) North Carolina Limited Liability ("Tenant").
(individual or State of formation and type of entity)
whose address is 10801 Johnston Rd., Suite 209-210, Charlotte, N.C. 28226

if this box is checked, the obligations of Tenant under this Lease are secured by the guaranty of n/a (name(s) of guarantor(s)) attached hereto and
incorporated herein by reference.

(Note: Any guaranty should be prepared by an attorney at law.)

For and in consideration of the mutual promises set forth herein and other good and valuable consideration, the receipt and sufficiency of which are hereby
acknowledged, the parties hereto agree as follows:

PREMISES/PROPERTY

(Note: In this paragraph, Premises is the actual space being leased and Property is the broader site/location of the Premises.)

1. (a) Landlord leases unto Tenant, and Tenant hereby leases and takes upon the terms and conditions which hereinafter appear, those certain
premises depicted on Exhibit A attached hereto and incorporated herein by reference (hereinafter called the "Premises"), which is a part of a building or
buildings located at the Property (defined below).

The address of the Premises is:
(Address):

10801 Johnston Rd., Suite 211, Charlotte, N.C. 28226

(b) The Premises is located at the following described property ("Property"):

(Address):

McGregor Downs Building, 10801 Johnston Rd., Charlotte, N.C. 28226

o All o A portion of the property in Deed Reference: Book n/a, Page No n/a
County; consisting of approximately n/a acres.

Plat Reference: Lot(s) n/a, Block or Section n/a as shown on Plat Book or
Slide n/a
at Page(s) n/a, n/a Contry, consisting of n/a acres

o If this box is checked, Property shall mean that property described on Exhibit B attached hereto and incorporated herewith by reference.

(For information purposes only, the tax parcel number of the Property is n/a

All facilities furnished at the Property and designated for the general use, in common, of occupants of the Property and their invitees, agents or employees, including Tenant hereunder, including but not limited to parking areas, streets, driveway s, sidewalks, canopies, roadways, loading platforms, shelters, ramps, landscaped areas, exterior water faucets, irrigation systems, exterior lighting fixtures, signs and other facilities whether of a similar or dissimilar nature ("Common Areas") shall at all times be subject to the exclusive control and management of Landlord, and Landlord shall have the right from time to time to change the area, level, location and arrangement of the Common Areas and to restrict parking by tenants and their employees to employee parking areas, to make Rules and Regulations (as herein defined) and do such things from time to time as in Landlord's reasonable discretion may be necessary regarding the Common Areas.

Tenant shall also have a non-exclusive right, in common with other tenants at the Property, to the use of the Common Areas at the Property, subject to the terms hereof.

## TERM

2. The term of this Lease shall commence on **November 01, 2007** ("Lease Commencement Date"), and shall end at midnight on **May 30, 2009**, unless sooner terminated as herein provided. The first Lease Year Anniversary shall be the date twelve (12) calendar months after the first day of the first full month immediately following the Lease Commencement Date and successive Lease Year Anniversaries shall be the date twelve (12) calendar months from the previous Lease Year Anniversary.

If this box is checked, Tenant shall have the option of renewing this Lease, upon written notice given to Landlord at least 90 days prior to the end of the then expiring term of this Lease, for one additional term(s) of **Two years each**.

**Option to Lease-** If this box is checked, Tenant, upon the payment of the sum of \$ n/a (which sum is not rental or security deposit hereunder, but is consideration for this Option to Lease and is non-refundable under any circumstances) shall have a period of n/a days prior to the Lease Commencement Date ("Option Period") in which to inspect the Premises and make inquiry regarding such sign regulations, zoning regulations, utility availability, private restrictions or permits or other regulatory requirements as Tenant may deem appropriate to satisfy itself as to the use of the Premises for Tenant's intended purposes. Tenant shall conduct all such on-site inspections, examinations, inquiries and other review of the Premises in a good and workmanlike manner, shall repair any damage to the Premises caused by Tenant's entry and on-site inspections and shall conduct same in a manner that does not unreasonably interfere with Landlord's or any tenant's use and enjoyment of the Property. In that respect, Tenant shall make reasonable efforts to undertake on-site inspections outside of the hours any tenant's business is open to the public and shall give prior notice to the tenant at the Premises of any entry onto the Premises for the purpose of conducting inspections. Upon Landlord's request, Tenant shall provide to Landlord evidence of general liability insurance. Tenant shall also have a right to review and inspect all contracts or other agreements affecting or related directly to the Premises and shall be entitled to review such books and records of Landlord that relate directly to the operation and maintenance of the Premises, provided, however, that Tenant shall not disclose any information regarding the Property (or any tenant therein) unless required by law and the same shall be regarded as confidential, to any person, except to its attorneys, accountants, lenders and other professional advisors, in which case Tenant shall obtain their agreement to maintain such confidentiality. Tenant assumes all responsibility for the acts of itself, its agents or representatives in exercising its rights under this Option to Lease and agrees to indemnify and hold Seller harmless from any damages resulting therefrom. This indemnification obligation of Tenant shall survive the termination of this Option to Lease or this Lease. Tenant shall, at Tenant's expense, promptly repair any damage to the Premises or Property caused by Tenant's entry and on-site inspections. **IF TENANT CHOOSES NOT TO LEASE THE PREMISES, FOR ANY REASON OR NO REASON, AND PROVIDES WRITTEN NOTICE TO LANDLORD THEREOF PRIOR TO THE EXPIRATION OF THE OPTION PERIOD, THEN THIS LEASE SHALL TERMINATE AND NEITHER PARTY SHALL HAVE ANY FURTHER OBLIGATIONS HEREUNDER AND LANDLORD SHALL RETURN TO TENANT ANY RENTAL OR SECURITY DEPOSIT PAID TO LANDLORD HEREUNDER.** Tenant shall be deemed to have exercised its Option to Lease and to be bound under the terms of this Lease if (i) Tenant shall occupy the Premises prior to the expiration of the Option Period, whereupon the date of occupancy shall be deemed the Lease Commencement Date, or (ii) Tenant shall not provide written notice to Landlord of its termination of this Lease prior to the expiration of the Option Period.

## RENTAL

3. Beginning on **November 01, 2007** ("Rent Commencement Date"), Tenant agrees to pay Landlord (or its Agent as directed by Landlord), without notice, demand, deduction or set off, an annual rental of **\$ 9,000.00**, payable in equal monthly installments of **\$ 750.00**, in advance on the first day of each calendar month during the term hereof. Upon execution of this Lease, Tenant shall pay to Landlord the first monthly installment of rent due hereunder. Rental for any period during the term hereof which is less than one month shall be the pro-rated portion of the monthly installment of rental due, based upon a 30 day month.

If this box is checked, the annual rental payable hereunder (and accordingly the monthly installments) shall be adjusted every one Lease Year Anniversary by 4 % over the amount then payable hereunder. In the event renewal of this Lease is provided for in paragraph 2 hereof and effectively exercised by Tenant, the rental adjustments provided herein shall apply to the term of the Lease so renewed, or

If this box is checked, the annual rental payable hereunder (and accordingly the monthly installments) shall be adjusted every n/a Lease Year Anniversary by \$ nia over the amount then payable hereunder. In the event renewal of this Lease is provided

for in paragraph 2 hereof and effectively exercised by Tenant, the rental adjustments provided herein shall apply to the term of the Lease so renewed,

x If this box is checked, Tenant shall pay all rental to Landlord's Agent at the following address:  
Highland Realty & Development, Ltd., 10801 Johnston Rd., Suite 116, Charlotte, N.C. 28226

**LATE CHARGES**

4. If Landlord fails to receive full rental payment within 10 days after it becomes due, Tenant shall pay Landlord, as additional rental, a late charge equal to ten percent 10 (%) of the overdue amount or \$ n/a whichever is greater, plus any actual bank fees incurred for dishonored payments. The parties agree that such a late charge represents a fair and reasonable estimate of the cost Landlord will incur by reason of such late payment.

**SECURITY DEPOSIT**

5. Upon the execution of this Lease, Tenant shall deposit with Landlord the sum of \$ 250 - - 00 as a security deposit which shall be held by Landlord as security for the full and faithful performance by Tenant of each and every term, covenant and condition of this Lease. The security deposit does not represent payment of and Tenant shall not presume application of same as payment of the last monthly installment of rental due under this Lease. Landlord shall have no obligation to segregate or otherwise account for the security deposit except as provided in this paragraph 5. If any of the rental or other charges or sums payable by Tenant shall be over-due and unpaid or should payments be made by Landlord on behalf of Tenant, or should Tenant fail to perform any of the terms of this Lease, then Landlord may, at its option, appropriate and apply the security deposit, or so much thereof as *may* be necessary, to compensate toward the payment of the rents, charges or other sums due from Tenant, or towards any loss, damage or expense sustained by Landlord resulting from such default on the part of the Tenant; and in such event Tenant upon demand shall restore the security deposit to the amount set forth above in this paragraph 5. In the event Tenant furnishes Landlord with proof that all utility bills and other bills of Tenant related to the Premises have been paid through the date of Lease termination, and performs all of Tenant's other obligations under this Lease, the security deposit shall be returned to Tenant within sixty (60) days after the date of the expiration or sooner termination of the term of this Lease and the surrender of the Premises by Tenant in compliance with the provisions of this Lease.

x If this box is checked, Agent shall hold the security deposit in trust and shall be entitled to the interest, if any, thereon.

**UTILITY BILLS/SERVICE CONTRACTS**

6. Landlord and Tenant agree that utility bills and service contracts ("Service Obligations") for the Premises shall be paid by the party indicated below as to each Service Obligation. in each instance, the party undertaking responsibility for payment of a Service Obligation covenants that they will pay the applicable bills prior to delinquency. The responsibility to pay for a Service Obligation shall include all metering, hook-up fees or other miscellaneous charges associated with establishing, installing and maintaining such utility or contract in said party's name. Within thirty (30) days of the Lease Commencement Date, Tenant shall provide Landlord with a copy of any requested Tenant Service Obligation information.

| <u>Service Obligation</u>               | <u>Landlord</u> | <u>Tenant</u> | <u>Not Applicable</u> |
|---|-----------------|---------------|-----------------------|
| Sewer/Septic                            | x               | q             | q                     |
| Water                                   | X               | q             | q                     |
| Electric                                | q               | X             | q                     |
| Gas                                     | q               | q             | X                     |
| Telephone                               | q               | X             | q                     |
| HVAC (maintenance/service contract)     | X               | q             | q                     |
| Elevator (including phone line)         | q               | q             | X                     |
| Security System                         | q               | q             | X                     |
| Fiber Optic                             | q               | q             | X                     |
| Janitor/Cleaning                        | q               | q             | q                     |
| Trash/Dumpster                          | X               | q             | q                     |
| Landscaping/Maintenance                 | X               | q             | q                     |
| Sprinkler System (including phone line) | q               | q             | X                     |
| Pest Control                            | q               | q             | X                     |
| n/a                                     | q               | q             | X                     |
| n/a                                     | q               | q             | q                     |
| <b>n/a</b>                              | q               | q             | q                     |
| <b>n/a</b>                              | q               | q             | q                     |



Landlord shall not be liable for injury to Tenant's business or loss of income there-from or for damage that may be sustained by the person, merchandise or personal property of Tenant, its employees, agents, invitees or contractors or any other person in or about the Premises, caused by or resulting from fire, steam, electricity, gas, water or rain, which may leak or flow from or into any part of the Premises, or from the breakage, leakage, obstruction or other defects of any utility installations, air conditioning system or other components of the Premises or the Property, except to the extent that such damage or loss is caused by Landlord's gross negligence or willful misconduct. Landlord makes no representations or warranties with respect to the heating, ventilation and air conditioning system(s) or utility installations existing as of the date hereof or in the future. Subject to the provisions of this paragraph 6, Landlord shall not be liable in damages or otherwise for any discontinuance, failure or interruption of service to the Premises of utilities or the heating, ventilation and air conditioning system(s) and Tenant shall have no right to terminate this Lease or withhold rental because of the same.

## **RULES AND REGULATIONS**

7. The rules and regulations, if any, attached hereto ("Rules and Regulations") are made a part of this Lease. Tenant agrees to comply with any Rules and Regulations of Landlord in connection with the Premises which are in effect at the time of the execution of the Lease or which may be from time to time promulgated by Landlord in its reasonable discretion, provided such Rules and Regulations are in writing and are not in conflict with the terms and conditions of the Lease. Landlord shall use commercially reasonable efforts to enforce such Rules and Regulations at the Property, provided, however, in no event shall Landlord be obligated to make any material expenditures in connection with the enforcement of such Rules and Regulations. Landlord shall not be liable for any damages arising from any use, act or failure to act of any other tenant or occupant (including such tenant's or occupant's invitees, agents or employees), if any, of the Property.

## **PERMITTED USES**

8. The permitted use of the Premises shall be **Professional Office Use Only** ("Permitted Use"). The Premises shall be used and wholly occupied by Tenant solely for the purposes of conducting the Permitted Use, and the Premises shall not be used for any other purposes unless Tenant obtains Landlord's prior written approval of any change in use. Landlord makes no representation or warranty regarding the suitability of the Premises for or the legality (under zoning or other applicable ordinances) of the Permitted Use for the Premises, provided however, that Landlord does represent that it has no contractual obligations with other parties which will materially interfere with or prohibit the Permitted Use of Tenant at the Premises. At Tenant's sole expense, Tenant shall procure, maintain and make available for Landlord's inspection from time to time any governmental license(s) or permit(s) required for the proper and lawful conduct of Tenant's business in the Premises. Tenant shall not cause or permit any waste to occur in the Premises and shall not overload the floor, or any mechanical, electrical, plumbing or utility systems serving the Premises. Tenant shall keep the Premises, and every part thereof, in a clean and wholesome condition, free from any objectionable noises, loud music, objectionable odors or nuisances.

## **TAXES, INSURANCE AND COMMON AREA AND PROPERTY OPERATING EXPENSES**

9. Landlord shall pay all taxes (including but not limited to, ad valorem taxes, special assessments and any other governmental charges) on the Property, shall procure and pay for such commercial general liability, broad form fire and extended and special perils insurance with respect to the Property as Landlord in its reasonable discretion may deem appropriate and shall maintain and operate the Common Areas and the Property. Tenant shall reimburse Landlord for its proportionate share of all taxes, insurance and Common Areas and Property operating expenses as provided herein within fifteen (15) days after receipt of notice from Landlord as to the amount due. Tenant shall be solely responsible for insuring Tenant's personal and business property and for paying any taxes or governmental assessments levied thereon. Tenant shall reimburse Landlord for its proportionate share of taxes, insurance and Common Areas and Property operating expenses during the term of this Lease, and any extension or renewal thereof; as follows:

### **Taxes**

o Its proportionate share of the amount by which all taxes (including but not limited to, ad valorem taxes, special assessments and any other governmental charges) on the Property for each tax year exceed all taxes on the Property for the tax year n/a ; or

o Its proportionate share of all taxes (including but not limited to, ad valorem taxes, special assessments and any other governmental charges) on the Property for each tax year.

If the final Lease Year of the term fails to coincide with the tax year, then any excess for the tax year during which the term ends shall be reduced by the pro rata part of such tax year beyond the Lease term. If such taxes for the year in which the Lease terminates are not ascertainable before payment of the last month's rental, then the amount of such taxes assessed against the Property for the previous tax year shall be used as a basis for determining the pro rata share, if any, to be paid by Tenant for that portion of the last Lease Year.

o If this box is checked, Tenant shall reimburse Landlord for its proportionate share of taxes by paying to Landlord, beginning on the Rent Commencement Date and on the first day of each calendar month during the term hereof, an amount equal to one-twelfth (1/12) of its proportionate share of the then current tax payments for the Property. Upon receipt of bills, statements or other evidence of taxes due, Landlord shall pay or cause to be paid the taxes. If at any time the reimbursement payments by Tenant hereunder do not equal its proportionate share of the amount of taxes paid by Landlord, Tenant shall upon demand pay to Landlord an amount equal to the deficiency or Landlord shall refund to Tenant any overpayment (as applicable) as documented by Landlord. Landlord shall have no obligation to segregate or otherwise account for the tax reimbursements paid hereunder except as provided in this paragraph 9.

**Insurance**

Its proportionate share of the excess cost of commercial general liability, broad form fire and extended and special perils insurance with respect to the Property over the cost of the first year of the Lease term for each subsequent year during the term of this Lease; or

q Its proportionate share of the cost of all commercial general liability, broad form fire and extended and special perils insurance with respect to the Property.

Provided, however, that in the event Tenant's use of the Premises results in an increase in the rate of insurance on the Property, Tenant also shall pay to Landlord, upon demand and as additional rental, the amount of any such increase.

- o If this box is checked, Tenant shall reimburse Landlord for its proportionate share of insurance by paying to Landlord, beginning on the Rent Commencement Date and on the first day of each calendar month during the term hereof, an amount equal to one-twelfth (1/12) of its proportionate share of the then current insurance premiums for the Property. Upon receipt of bills, statements or other evidence of insurance premiums due, Landlord shall pay or cause to be paid the insurance premiums. If at any time the reimbursement payments by Tenant hereunder do not equal its proportionate share of the amount of insurance premiums paid by Landlord, Tenant shall upon demand pay to Landlord an amount equal to the deficiency or Landlord shall refund to Tenant any overpayment (as applicable) as documented by Landlord. Landlord shall have no obligation to segregate or otherwise account for the insurance premium reimbursements paid hereunder except as provided in this paragraph 9.

**Common Areas and Property Operating Expenses**

Its proportionate share of all Common Areas and Property operating expenses.

For the purpose of this Lease, Common Areas and Property operating expenses shall include: (a) the cost of water and sewer services for any exterior landscaping irrigation systems; (b) the cost of utilities to service the Property (not separately metered to tenants and regardless of their allocation to Landlord under paragraph 6 hereof) including but not limited to, electric service for any parking lot lighting, marquee signs, ground signs, pylon signs, time clocks, irrigation systems, common electric outlets used in connection with maintenance of the Property, and such other electric costs, including the replacement of light bulbs in Common Areas light fixtures as necessary to properly maintain and operate the Common Areas; (c) the cost of the removal of any trash, including the rental cost of dumpster units and fees for refuse removal; (d) the cost of exterior window washing of vacant spaces, cleaning of any building exterior, awnings, sidewalks, driveways and parking areas; (e) the cost of anygrounds maintenance, including but not limited to charges for maintaining plant materials, fertilizer, pesticides, grass mowing, pruning of plants, planting of annual flowers, removal of debris and trash from Common Areas, cleaning supplies, and such other expenses necessary to maintain the Property; (f) the cost of service contracts with independent contractors to maintain on a regular basis the plumbing systems outside the rentable areas of each tenant, and to provide for pest control and exterminating services for the Common Areas; (g) the cost of maintaining the parking areas and driveways, including the re-striping of parking spaces, patching of deteriorated pavement, replacement of parking signs or directional signs; (h) the cost of Landlord's personnel when such personnel are engaged directly in the maintenance of the Common Areas of the Property, including the cost of employer taxes and a proration of employee benefits; (i) the cost of snow and ice removal from parking areas, driveways, walkways and service areas; (j) the cost of telephone, telegraph, stationery, advertising, and mail or shipping costs related directly to the maintenance or operation of the Property; (k) the cost of all capital and structural repair maintenance for the Property and systems related thereto; and (l) such other costs and expenses as are typically incurred in the maintenance and operation of a property of this type, inclusive of a management fee paid by Landlord to a property manager or property management company or organization for the management of the Property and any owner association dues or assessments. Within one hundred eighty (180) days following the end of each calendar year, Landlord shall cause a statement to be prepared of the actual cost of Common Areas and Property operating expenses for such calendar year and shall provide Tenant a copy of same. Tenant's proportionate share of Common Areas and Property operating expenses is presently estimated to be the sum of \$ n/a annually or \$ n/a per month.

o If this box is checked, Tenant shall reimburse Landlord for its proportionate share of Common Areas and Property operating expenses by paying to Landlord, beginning on the Rent Commencement Date and on the first day of each calendar month during the term hereof, the amount set forth above as the presently estimated per month proportionate share of Common Areas and Property operating expenses for the Premises. Landlord shall pay or cause to be paid the Common Areas and Property operating expenses. Within one hundred eighty (180) days following the end of each calendar year, Landlord shall: (i) cause a statement to be prepared of the actual cost of Common Areas and Property operating expenses for such calendar year and shall notify Tenant of any overpayment or underpayment of Tenant's proportionate share of these items during such prior calendar year; and, (ii) establish an estimate of the cost of Common Areas and Property operating expenses for the then current calendar year. To the extent Tenant has overpaid Tenant's proportionate share of these items for the preceding calendar year, such overage shall be credited to Tenant's proportionate share of these items for the current calendar year. To the extent Tenant has underpaid Tenant's proportionate share of these items for the preceding calendar year, Tenant shall, on the first day of the calendar month following receipt of the statement from Landlord setting forth the amount of such underpayment, pay to Landlord the full amount of such underpayment for the preceding calendar year. In addition, beginning on the first day of the calendar month following the date upon which Landlord shall have delivered to Tenant the statement for the estimated Common Areas and Property operating expenses for the then current calendar year, Tenant shall pay to Landlord the product of one-twelfth (1/12) of Tenant's proportionate share of the estimated Common Areas and Property operating expenses for the then current calendar year multiplied by the number of calendar months in the calendar year which shall have begun as of said first day, minus the aggregate amount of the monthly payments for Tenant's proportionate share of expenses theretofore paid by Tenant during such calendar year. The remainder of Tenant's proportionate share of such expenses for the then current calendar year shall be paid by Tenant to Landlord on the first day of each succeeding month in equal consecutive monthly installments of one-twelfth (1/12) of the total amount of Tenant's proportionate share of Common Areas and Property operating expenses as shown on the estimate thereof provided by Landlord. Landlord shall have no obligation to segregate or otherwise account for the insurance premium reimbursements paid hereunder except as provided in this paragraph 9.

For purposes of this paragraph 9, "Tenant's proportionate share" shall mean **(check one)**:

- o n/a % of the expenses above designated; or
- o \$ n/a payable monthly, in satisfaction of all reimbursements under this paragraph 9; or
- o None- Tenant shall have no responsibility to reimburse Landlord for taxes, insurance or Common Areas and Property operating expenses.

#### **INSURANCE; WAIVER; INDEMNITY**

10. (a) During the term of this Lease, Tenant shall maintain commercial general liability insurance coverage (occurrence coverage) with broad form contractual liability coverage and with coverage limits of not less than 1,000,000.00 combined single limit, per occurrence, specifically including liquor liability insurance covering consumption of alcoholic beverages by customers of Tenant should Tenant choose to sell alcoholic beverages. Such policy shall insure Tenant's performance of the indemnity provisions of this Lease, but the amount of such insurance shall not limit Tenant's liability nor relieve Tenant of any obligation hereunder. All policies of insurance provided for herein shall name as "additional insureds" Landlord, Landlord's Agent, all mortgagees of Landlord and such other individuals or entities as Landlord may from time to time designate upon written notice to Tenant. Tenant shall provide to Landlord, at least thirty (30) days prior to expiration, certificates of insurance to evidence any renewal or additional insurance procured by Tenant. Tenant shall provide evidence of all insurance required under this Lease to Landlord prior to the Lease Commencement Date.

(b) Landlord (for itself and its insurer) waives any rights, including rights of subrogation, and Tenant (for itself and its insurer) waives any rights, including rights of subrogation, each may have against the other for compensation of any loss or damage occasioned to Landlord or Tenant arising from any risk generally covered by the "all risks" insurance required to be carried by Landlord and Tenant. The foregoing waivers of subrogation shall be operative only so long as available in the State of North Carolina. The foregoing waivers shall be effective whether or not the parties maintain the insurance required to be carried pursuant to this Lease.

(c) Except as otherwise provided in paragraph 10(b), Tenant indemnifies Landlord for damages proximately caused by the negligence or wrongful conduct of Tenant and Tenant's employees, agents, invitees or contractors. Except as otherwise provided in paragraph 10(b), Landlord indemnifies Tenant for damages proximately caused by the negligence or wrongful conduct of Landlord and Landlord's employees, agents, invitees or contractors. The indemnity provisions in this paragraph 10 cover personal injury and property damage and shall bind the employees, agents, invitees or contractors of Landlord and Tenant (as the case may be). The indemnity obligations in this paragraph 10 shall survive the expiration or earlier termination of this Lease.

#### **REPAIRS BY LANDLORD**

11. Landlord agrees to keep in good repair the roof, foundation, structural supports, exterior walls (exclusive of all glass and exclusive of all exterior doors) and the Common Areas of the Property, except repairs rendered necessary by the negligence or intentional wrongful acts of Tenant, its employees, agents, invitees or contractors. Tenant shall promptly report in writing to Landlord any defective condition known to it which Landlord is required to repair and failure to report such conditions shall make Tenant responsible to Landlord for any liability incurred by Landlord by reason of such conditions.

#### **REPAIRS BY TENANT**

12. (a) Tenant accepts the Premises in their present condition and as suited for the Permitted Use and Tenant's intended purposes. Tenant, throughout the initial term of this Lease, and any extension or renewal thereof, at its expense, shall maintain in good order and repair the Premises, except those repairs expressly required to be made by Landlord hereunder. Tenant shall use only licensed contractors for repairs where such license is required. Landlord shall have the right to approve the contractor as to any repairs in excess of \$ 100.00

(b) Tenant agrees to return the Premises to Landlord at the expiration or prior termination of this Lease, in as good condition and repair as on the Lease Commencement Date, natural wear and tear, damage by storm, fire, lightning, earthquake or other casualty alone excepted. Tenant, Tenant's employees, agents, invitees or contractors shall take no action which may void any manufacturers or installers warranty with relation to the Premises or the Property. Tenant shall indemnify and hold Landlord harmless from any liability, claim, demand or cause of action arising on account of Tenant's breach of the provisions of this paragraph 12.



o If this box is checked, there is heating, ventilation and air conditioning equipment exclusively serving the Premises. Tenant, at its expense, shall maintain in good order and repair, including but not limited to replacement of parts, compressors, air handling units and heating units; provided that, as to repair or replacement expenses for heating, ventilation and air conditioning equipment in excess of \$ n/a (per occurrence) or \$ n/a (annually), Landlord shall reimburse Tenant for the amount in excess of the stated amount, provided that Tenant has obtained Landlord's prior written approval of the contractor and the repair or replacement.

### **ALTERATIONS**

13. Tenant shall not make any alterations, additions, or improvements to the Premises without Landlord's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed. Tenant shall promptly remove any alterations, additions, or improvements constructed in violation of this paragraph 13 upon Landlord's written request. All approved alterations, additions, and improvements will be accomplished in a good and workmanlike manner, in conformity with all applicable laws and regulations, and by a contractor approved by Landlord, free of any liens or encumbrances. Landlord may require Tenant to remove any alterations, additions or improvements (whether or not made with Landlord's consent) at the termination of the Lease and to restore the Premises to its prior condition, all at Tenant's expense. All alterations, additions and improvements which Landlord has not required Tenant to remove shall become Landlord's property and shall be surrendered to Landlord upon the termination of this Lease, except that Tenant may remove any of Tenant's machinery, equipment or trade fixtures which can be removed without material damage to the Premises or the Property. Tenant shall repair, at Tenant's expense, any damage to the Premises or the Property caused by the removal of any such machinery, equipment or trade fixtures.

### **DESTRUCTION OF OR DAMAGE TO PREMISES**

14. (a) If the Premises are totally destroyed by storm, fire, lightning, earthquake or other casualty, Landlord shall have the right to terminate this Lease on written notice to Tenant within thirty (30) days after such destruction and this Lease shall terminate as of the date of such destruction and rental shall be accounted for as between Landlord and Tenant as of that date.

(b) If the Premises are damaged but not wholly destroyed by any such casualties or if the Landlord does not elect to terminate the Lease under paragraph 14(a) above, Landlord shall commence (or shall cause to be commenced) reconstruction of the Premises within one hundred twenty (120) days after such occurrence and prosecute the same diligently to completion, not to exceed two hundred seventy (270) days from the date upon which Landlord receives applicable permits and insurance proceeds. In the event Landlord shall fail to substantially complete reconstruction of the Premises within said two hundred seventy (270) day period, Tenant's sole remedy shall be to terminate this Lease.

(c) In the event of any casualty at the Premises during the last one (1) year of the Lease Term, Landlord and Tenant each shall have the option to terminate this Lease on written notice to the other of exercise thereof within sixty (60) days after such occurrence.

(d) In the event of reconstruction of the Premises, Tenant shall continue the operation of its business in the Premises during any such period to the extent reasonably practicable from the standpoint of prudent business management, and the obligation of Tenant to pay annual rental and any other sums due under this Lease shall remain in full force and effect during the period of reconstruction. The annual rental and other sums due under this Lease shall be abated proportionately with the degree to which Tenant's use of the Premises is impaired, commencing from the date of destruction and continuing during the period of such reconstruction. Tenant shall not be entitled to any compensation or damages from Landlord for loss of use of the whole or any part of the Premises, Tenant's personal property, or any inconvenience or annoyance occasioned by such damage, reconstruction or replacement.

(e) In the event of the termination of this Lease under any of the provisions of this paragraph 14, both Landlord and Tenant shall be released from any liability or obligation under this Lease arising after the date of termination, except as otherwise provided for in this Lease.

### **GOVERNMENTAL ORDERS**

15. Tenant, at its own expense, agrees to comply with: (a) any law, statute, ordinance, regulation, rule, requirement, order, court decision or procedural requirement of any governmental or quasi-governmental authority having jurisdiction over the Premises; (b) the rules and regulations of any applicable governmental insurance authority or any similar body, relative to the Premises and Tenant's activities therein; (c) provisions of or rules enacted pursuant to any private use restrictions, as the same may be amended from time to time and (d) the Americans with Disabilities Act (42 U.S.C. S. § 12101, et seq.) and the regulations and accessibility guidelines enacted pursuant thereto, as the same may be amended from time to time. Landlord and Tenant agree, however, that if in order to comply with such requirements the cost to Tenant shall exceed a sum equal to one (1) year's rent, then Tenant may terminate this Lease by giving written notice of termination to Landlord in accordance with the terms of this Lease, which termination shall become effective sixty (60) days after receipt of such notice and which notice shall eliminate the necessity of compliance with such requirements, unless, within thirty (30) days of receiving such notice, Landlord agrees in writing to be responsible for such compliance, at its own expense, and commences compliance activity, in which case Tenant's notice given hereunder shall not terminate this Lease.

## **EXTERIOR SIGNS**

20. Tenant shall place no signs upon the outside walls, doors or roof of the Premises or anywhere on the Property, except with the express written consent of the Landlord in Landlord's sole discretion. Any consent given by Landlord shall expressly not be a representation of or warranty of any legal entitlement to signage at the Premises or on the Property. Any and all signs placed on the Premises or the Property by Tenant shall be maintained in compliance with governmental rules and regulations governing such signs and Tenant shall be responsible to Landlord for any damage caused by installation, use or maintenance of said signs, and all damage incident to removal thereof.

## **LANDLORD'S ENTRY OF PREMISES**

21. Landlord may advertise the Premises "For Rent" or "For Sale" 60 days before the termination of this Lease. Landlord may enter the Premises upon prior notice at reasonable hours to exhibit same to prospective purchasers or tenants, to make repairs required of Landlord under the terms hereof, for reasonable business purposes and otherwise as may be agreed by Landlord and Tenant. Landlord may enter the Premises at any time without prior notice, in the event of an emergency or to make emergency repairs to the Premises. Upon request of Landlord, Tenant shall provide Landlord with a functioning key to the Premises and shall replace such key if the locks to the Premises are changed.

## **QUIET ENJOYMENT**

22. So long as Tenant observes and performs the covenants and agreements contained herein, it shall at all times during the Lease term peacefully and quietly have and enjoy possession of the Premises, subject to the terms hereof.

## **HOLDING OVER**

23. If Tenant remains in possession of the Premises after expiration of the term hereof, Tenant shall be a tenant at sufferance and there shall be no renewal of this Lease by operation of law. In such event, commencing on the date following the date of expiration of the term, the monthly rental payable under Paragraph 3 above shall for each month, or fraction thereof during which Tenant so remains in possession of the Premises, be **twice** the monthly rental otherwise payable under Paragraph 3 above.

## **ENVIRONMENTAL LAWS**

24. (a) Tenant covenants that with respect to any Hazardous Materials (as defined below) it will comply with any and all federal, state or local laws, ordinances, rules, decrees, orders, regulations or court decisions relating to hazardous substances, hazardous materials, hazardous waste, toxic substances, environmental conditions on, under or about the Premises or the Property or soil and ground water conditions, including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Resource Conservation and Recovery Act, the Hazardous Materials Transportation Act, any other legal requirement concerning hazardous or toxic substances, and any amendments to the foregoing (collectively, all such matters being "Hazardous Materials Requirements"). Tenant shall remove all Hazardous Materials from the Premises, either after their use by Tenant or upon the expiration or earlier termination of this Lease, in compliance with all Hazardous Materials Requirements.

(b) Tenant shall be responsible for obtaining all necessary permits in connection with its use, storage and disposal of Hazardous Materials, and shall develop and maintain, and where necessary file with the appropriate authorities, all reports, receipts, manifest, filings, lists and invoices covering those Hazardous Materials and Tenant shall provide Landlord with copies of all such items upon request. Tenant shall provide within five (5) days after receipt thereof, copies of all notices, orders, claims or other correspondence from any federal, state or local government or agency alleging any violation of any Hazardous Materials Requirements by Tenant, or related in any manner to Hazardous Materials. In addition, Tenant shall provide Landlord with copies of all responses to such correspondence at the time of the response.

(c) Tenant hereby indemnifies and holds harmless Landlord, its successors and assigns from and against any and all losses, liabilities, damages, injuries, penalties, fines, costs, expenses and claims of any and every kind whatsoever (including attorney's fees and costs) paid, incurred or suffered by, or asserted against Landlord as a result of any claim, demand or judicial or administrative action by any person or entity (including governmental or private entities) for, with respect to, or as a direct or indirect result of, the presence on or under or the escape, seepage, leakage, spillage, discharge, emission or release from the Premises or the Property of any Hazardous Materials caused by Tenant or Tenant's employees, agents, invitees or contractors. This indemnity shall also apply to any release of Hazardous Materials caused by a *fire* or other casualty to the Premises if such Hazardous Materials were stored on the Premises or the Property by Tenant, its agents, employees, invitees or successors in interest.

(d) For purposes of this Lease, "Hazardous Materials" means any chemical, compound, material, substance or other matter that: (i) is defined as a hazardous substance, hazardous material or waste, or toxic substance pursuant to any Hazardous Materials Requirements, (ii) is regulated, controlled or governed by any Hazardous Materials Requirements, (iii) is petroleum or a petroleum product, or (iv) is asbestos, formaldehyde, a radioactive material, drug, bacteria, virus, or other injurious or potentially injurious material (by itself or in combination with other materials).

(e) The warranties and indemnities contained in this paragraph 24 shall survive the termination of this Lease.

### **SUBORDINATION; ATTORNMENT; ESTOPPEL**

25. (a) This Lease and all of Tenant's rights hereunder are and shall be subject and subordinate to all currently existing and future mortgages affecting the Premises. Within ten (10) days after the receipt of a written request from Landlord or any Landlord mortgagee, Tenant shall confirm such subordination by executing and delivering Landlord and Landlord's mortgagee a recordable subordination agreement and such other documents as may be reasonably requested, in form and content satisfactory to Landlord and Landlord's mortgagee. Provided, however, as a condition to Tenant's obligation to execute and deliver any such subordination agreement, the applicable mortgagee must agree that mortgagee shall not unilaterally, materially alter this Lease and this Lease shall not be divested by foreclosure or other default proceedings thereunder so long as Tenant shall not be in default under the terms of this Lease beyond any applicable cure period set forth herein. Tenant acknowledges that any Landlord mortgagee has the right to subordinate at any time its interest in this Lease and the leasehold estate to that of Tenant, without Tenant's consent.

(b) If Landlord sells, transfers, or conveys its interest in the Premises or this Lease, or if the same is foreclosed judicially or nonjudicially, or otherwise acquired, by a Landlord mortgagee, upon the request of Landlord or Landlord's successor, Tenant shall attorn to said successor, provided said successor accepts the Premises subject to this Lease. Tenant shall, upon the request of Landlord or Landlord's successor, execute an attornment agreement confirming the same, in form and substance acceptable to Landlord or Landlord's successor and Landlord shall thereupon be released and discharged from all its covenants and obligations under this Lease, except those obligations that have accrued prior to such sale, transfer or conveyance; and Tenant agrees to look solely to the successor in interest of Landlord for the performance of those covenants accruing after such sale, transfer or conveyance. Such agreement shall provide, among other things, that said successor shall not be bound by (a) any prepayment of more than one (1) month's rental (except the Security Deposit) or (b) any material amendment of this Lease made after the later of the Lease Commencement Date or the date that such successor's lien or interest first arose, unless said successor shall have consented to such amendment.

(c) Within ten (10) days after request from Landlord, Tenant shall execute and deliver to Landlord an estoppel certificate (to be prepared by Landlord and delivered to Tenant) with appropriate facts then in existence concerning the status of this Lease and Tenant's occupancy, and with any exceptions thereto noted in writing by Tenant. Tenant's failure to execute and deliver the Estoppel Certificate within said ten (10) day period shall be deemed to make conclusive and binding upon Tenant in favor of Landlord and any potential mortgagee or transferee the statements contained in such estoppel certificate without exception.

### **ABANDONMENT**

26. Tenant shall not abandon the Premises at any time during the Lease term. If Tenant shall abandon the Premises or be dispossessed by process of law, any personal property belonging to Tenant and left on the Premises, at the option of Landlord, shall be deemed abandoned, and available to Landlord to use or sell to offset any rent due or any expenses incurred by removing same and restoring the Premises.

### **NOTICES**

27. All notices required or permitted under this Lease shall be in writing and shall be personally delivered or sent by U.S. certified mail, return receipt requested, postage prepaid. Notices to Tenant shall be delivered or sent to the address shown at the beginning of this Lease, except that upon Tenant taking possession of the Premises, then the Premises shall be Tenant's address for such purposes. Notices to Landlord shall be delivered or sent to the address shown at the beginning of this Lease and notices to Agent, if any, shall be delivered or sent to the address set forth in Paragraph 3 hereof. All notices shall be effective upon delivery. Any party may change its notice address upon written notice to the other parties, given as provided herein.

### **GENERAL TERMS**

28. (a) "Landlord" as used in this Lease shall include the undersigned, its heirs, representatives, assigns and successors in title to the Premises. "Agent" as used in this Lease shall mean the party designated as same in Paragraph 3, its heirs, representatives, assigns and successors. "Tenant" shall include the undersigned and its heirs, representatives, assigns and successors, and if this Lease shall be validly assigned or sublet, shall include also Tenant's assignees or sublessees as to the Premises covered by such assignment or sublease. "Landlord", "Tenant", and "Agent" include male and female, singular and plural, corporation, partnership or individual, as may fit the particular parties.

(b) No failure of Landlord to exercise any power given Landlord hereunder or to insist upon strict compliance by Tenant of its obligations hereunder and no custom or practice of the parties at variance with the terms hereof shall constitute a waiver of Landlord's right to demand exact compliance with the terms hereof. All rights, powers and privileges conferred hereunder upon parties hereto shall be cumulative and not restrictive of those given by law.

**(c) Time is of the essence in this Lease.**

(d) This Lease constitutes the sole and entire agreement among the parties hereto and no modification of this Lease shall be binding unless in writing and signed by all parties hereto.

(e) Each signatory to this Lease represents and warrants that he or she has full authority to sign this Lease and such instruments as may be necessary to effectuate any transaction contemplated by this Lease on behalf of the party for whom he or she signs and that his or her signature binds such party.

(f) Upon request by either Landlord or Tenant, the parties hereto shall execute a short form lease (memorandum of lease) in recordable form, setting forth such provisions hereof (other than the amount of annual rental and other sums due) as either party may wish to incorporate. The cost of recording such memorandum of lease shall be borne by the party requesting execution of same.

**SPECIAL STIPULATIONS**

If this box is checked, additional terms of this Lease are set forth on Exhibit C attached hereto and incorporated herein by reference. (Note: Under North Carolina law, real estate agents are not permitted to draft lease provisions.)

THIS DOCUMENT IS A LEGAL DOCUMENT. EXECUTION OF THIS DOCUMENT HAS LEGAL CONSEQUENCES THAT COULD BE ENFORCEABLE IN A COURT OF LAW. THE NORTH CAROLINA ASSOCIATION OF REALTORS® MAKES NO REPRESENTATIONS CONCERNING THE LEGAL SUFFICIENCY, LEGAL EFFECT OR TAX CONSEQUENCES OF THIS DOCUMENT OR THE TRANSACTION TO WHICH IT RELATES AND RECOMMENDS THAT YOU CONSULT YOUR ATTORNEY.

IN WITNESS WHEREOF, the parties hereto have hereunto caused this Lease to be duly executed.

**LANDLORD:**

**Individual**

LANDLORD \_\_\_\_\_ (SEAL)  
Fran Baltmiskis

Date: \_\_\_\_\_  
Business Entity \_\_\_\_\_  
n/a \_\_\_\_\_  
(Name of Firm)

By: \_\_\_\_\_ (SEAL)  
Title: n/a  
Date: n/a

**Business**

**ANCHOR FUNDING SERVICES,  
INC.**  
TENTAN: /s/ Brad Bernstein \_\_\_\_\_  
President for Anchor Funding Services, (SEAL)  
Inc  
By: Anchor Funding Services, Inc

Date: \_\_\_\_\_  
Business Entity \_\_\_\_\_  
n/a \_\_\_\_\_  
(Name of Firm)

By: \_\_\_\_\_ (SEAL)  
Title:  
n/a  
Date: n/a



## CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Morry F. Rubin, certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of Anchor Funding Services, 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 (if any) 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)) 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 small business issuer'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 small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer'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: May 13, 2008

By: /s/ MORRY F. RUBIN

**Morry F. Rubin**  
**Chief Executive Officer**

□ 0;

## CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Brad Bernstein, certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of Anchor Funding Services, 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 (if any) 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)) 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 small business issuer'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 small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer'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: May 13, 2008

By: /s/ BRAD BERNSTEIN

**Brad Bernstein**  
**President and Chief Financial Officer**

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

In connection with the Quarterly Report of Anchor Funding Services, Inc. (the "Company") on Form 10-QSB for the period ending March 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Morry Rubin, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act, that:

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

**May 13, 2008**

By: /s/ MORRY F. RUBIN

**Morry F. Rubin**  
**Chief Executive Officer**

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

In connection with the Quarterly Report of Anchor Funding Services, Inc. (the "Company") on Form 10-QSB for the period ending March 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brad Bernstein, President and Chief 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 result of operations of the Company.

**May 13, 2008**

By: /s/ BRAD BERNSTEIN

**Brad Bernstein,**  
**President and Chief Financial Officer**

**FOR IMMEDIATE RELEASE – May 13, 2008**

**Anchor Funding Services, Inc. reports fiscal 2008 - first quarter results.**

Boca Raton, Fl. (PR Newswire)/May 13, 2008 - Anchor Funding Services, Inc. (OTC Bulletin Board Symbol "AFNG") announced today its results for its first quarter of 2008. The company reported 2008 finance revenues and net loss of \$211,661 and \$(422,881) as compared to finance revenues and net loss of \$100,106 and \$(129,907) for the comparable prior year period. The increase in net loss is attributable to the company's investments in launching various sales initiatives, hiring marketing and operations personnel, an increase in general and administrative costs and compliance costs as a public reporting company.

Morry F. Rubin, CEO stated that "since having completed our private placement on April 5, 2007 we have begun to make investments to capitalize on the growth opportunity in the U.S. factoring industry. While ramping up our organic growth initiatives we are also exploring acquisition opportunities of other U.S. factoring firms which would enhance our ability to increase revenues and profits, add additional factoring services and increase our geography and clients. "

Factoring is the purchase of a company's accounts receivable, which provides businesses with critical working capital so they can meet their operational costs and obligations while waiting to receive payment from their customers. This is particularly important for small businesses experiencing rejections and delays from banks which are increasingly tightening their credit requirements.

Anchor may provide funding to businesses where the performance of a service or the delivery of a product can be verified. We have the ability to check a company's credit and evaluate its ability to pay across most industries. Typically, small businesses do not have adequate resources to manage the credit and A/R collection functions internally and cannot afford to provide their customers extended credit terms.

Factoring as it functions today has been in existence for nearly 200 years. Its historical focus has been in the textile, furniture and apparel industries, which provides products to major retailers. The factoring industry has expanded beyond the textile and apparel industries into other mainstream businesses. According to the Commercial Finance Association, the factoring Industry achieved U.S. revenues of \$ 127 billion in 2006.

Mr. Rubin also stated that "within our industry we are targeting specific sectors which demonstrate high demand for factoring services such as, transportation, and recently launched a dedicated transportation finance division, TruckerFunds.com. TruckerFunds.com purchases freight bills from small fleets and owner/operators across the U.S. We are excited about our future expansion opportunities for the balance of fiscal 2008 and beyond in the factoring industry which is highly fragmented and not dominated by any single firm(s). We will continue to communicate important developments as they occur. "

**About Anchor**

Anchor provides innovative accounts receivable funding to small U.S businesses. Our funding facility, which is based upon creditworthiness of accounts receivable, provides rapid and flexible financing to support small businesses' daily capital needs.

## **Additional Information**

For additional information, a copy of Anchor's Form 10-QSB can be obtained on the Internet by going to [www.sec.gov](http://www.sec.gov), clicking "Search for Company filings," then clicking "Companies & Other Filers," typing in our company name and clicking "find Companies."

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995.

Certain statements in this press release constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the company to be materially different from any future results, performances or achievements express or implied by such forward-looking statements. The forward-looking statements are subject to risks and uncertainties including, without limitation, changes in levels of competition, possible loss of customers, and the company's ability to attract and retain key personnel.

Contact Morry F. Rubin, Chairman and C.E.O (866) 950- 6669 EXT 302

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