

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For The Quarterly Period Ended September 30, 2017

Commission File Number: 0-52589



FLEXSHOPPER, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State of jurisdiction
of Incorporation)

20-5456087

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

**2700 N. Military Trail Suite 200
Boca Raton FL**

(Address of Principal Executive Offices)

33431

(Zip Code)

(855) 353-9289

(Registrant's telephone number)

Not Applicable

(Former name or former address, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the 12 preceding months (or such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer
Non-accelerated filer
Emerging growth company

(Do not check if a smaller reporting company)

Accelerated filer
Smaller reporting company

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

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

As of November 14, 2017, the Company had a total of 5,292,281 shares of common stock outstanding, excluding 243,065 outstanding shares of Series 1 Preferred Stock convertible into 147,417 shares of common stock and excluding 21,952 outstanding shares of Series 2 Preferred Stock convertible into 2,710,124 shares of common stock.

CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

This report contains certain “forward-looking statements,” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Reform Act of 1995, and are including this statement for purposes of these safe harbor provisions. “Forward-looking statements,” which are based on certain assumptions and describe our future plans, strategies and expectations, may be identified by the use of such words as “believe,” “expect,” “anticipate,” “should,” “planned,” “estimated” and “potential.” Examples of forward-looking statements, include, but are not limited to, estimates with respect to our financial condition, results of operations and business that are subject to various factors that could cause actual results to differ materially from these estimates and most other statements that are not historical in nature. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following: general and local economic conditions; competition, policies or guidelines; changes in legislation or regulation; other economic, competitive, governmental, regulatory and technological factors affecting our operations, pricing, products and services; and the other risks and uncertainties described in the Risk Factors and in Management’s Discussion and Analysis of Financial Condition and Results of Operations sections of our most recent Annual Report on Form 10-K and any subsequently filed Quarterly Reports on Form 10-Q. We caution readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made. Except as otherwise required by the federal securities laws, we disclaim any obligation or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein (or elsewhere) to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

FLEXSHOPPER, INC.
Form 10-Q Quarterly Report
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

**FLEXSHOPPER, INC.
CONSOLIDATED BALANCE SHEETS
(unaudited)**

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash	\$ 3,825,835	\$ 5,412,495
Accounts receivable, net	3,394,726	2,181,787
Prepaid expenses	348,522	361,777
Lease merchandise, net	11,151,635	18,570,460
Total current assets	<u>18,720,718</u>	<u>26,526,519</u>
PROPERTY AND EQUIPMENT, net	<u>2,848,983</u>	<u>2,540,514</u>
OTHER ASSETS:		
Intangible assets, net	18,033	20,340
Security deposits	78,458	68,251
	<u>96,491</u>	<u>88,591</u>
	<u>\$ 21,666,192</u>	<u>\$ 29,155,624</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of loan payable under credit agreement to beneficial shareholder net of \$138,138 of unamortized issuance costs	\$ 4,111,862	\$ -
Accounts payable	2,729,547	3,917,747
Accrued payroll and related taxes	148,945	296,333
Accrued expenses	303,490	259,104
Total current liabilities	<u>7,293,844</u>	<u>4,473,184</u>
Loan payable under credit agreement to beneficial shareholder, net of \$138,138 in 2017 and \$631,488 in 2016 of unamortized issuance costs	4,111,862	10,156,719
Total liabilities	<u>11,405,706</u>	<u>14,629,903</u>
STOCKHOLDERS' EQUITY		
Series 1 Convertible Preferred stock, \$0.001 par value- authorized 250,000 shares, issued and outstanding 243,065 shares in 2017 and 2016 at \$5.00 stated value	1,215,325	1,215,325
Series 2 Convertible Preferred stock, \$0.001 par value- authorized 25,000 shares, issued and outstanding 21,952 shares in 2017 and 2016 at \$1,000 stated value	21,952,000	21,952,000
Common stock, \$0.0001 par value- authorized 15,000,000 shares, issued and outstanding 5,292,281 shares in 2017 and 5,287,281 in 2016	529	529
Additional paid in capital	22,378,335	22,298,439
Accumulated deficit	(35,285,703)	(30,940,572)
	<u>10,260,486</u>	<u>14,525,721</u>
	<u>\$ 21,666,192</u>	<u>\$ 29,155,624</u>

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

FLEXSHOPPER, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
Revenues:				
Lease revenues and fees	\$ 16,144,184	\$ 12,072,493	\$ 49,458,109	\$ 32,505,343
Lease merchandise sold	359,656	255,431	1,174,608	747,747
Total revenues	16,503,840	12,327,924	50,632,717	33,253,090
Costs and expenses:				
Cost of lease revenues, consisting of depreciation and impairment of lease merchandise	8,146,293	5,525,701	24,733,915	16,817,016
Cost of lease merchandise sold	280,130	182,879	816,058	498,594
Provision for doubtful accounts	4,681,832	3,501,023	14,357,461	9,260,469
Marketing	994,576	2,442,243	2,625,367	6,186,417
Salaries and benefits	1,900,925	1,522,792	5,567,082	4,258,753
Operating expenses	1,723,309	1,307,418	5,266,278	3,546,215
Total costs and expenses	17,727,065	14,482,056	53,366,161	40,567,464
Operating loss	(1,223,225)	(2,154,132)	(2,733,444)	(7,314,374)
Interest expense including amortization of debt issuance costs	504,392	459,360	1,611,687	1,445,542
Net loss	(1,727,617)	(2,613,492)	(4,345,131)	(8,759,916)
Dividends on Series 2 Convertible Preferred Shares	603,680	548,747	1,712,716	663,111
Net loss attributable to common shareholders	\$ (2,331,297)	\$ (3,162,239)	\$ (6,057,847)	\$ (9,423,027)
Basic and diluted (loss) per common share:				
Net loss	\$ (0.44)	\$ (0.60)	\$ (1.14)	\$ (1.80)
WEIGHTED AVERAGE COMMON SHARES:				
Basic and diluted	5,292,281	5,276,714	5,290,077	5,236,954

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

FLEXSHOPPER, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the nine months ended September 30, 2017
(unaudited)

	Series 1 Convertible Preferred Stock		Series 2 Convertible Preferred Stock		Common Stock		Additional Paid in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, January 1, 2017	243,065	\$ 1,215,325	21,952	\$21,952,000	5,287,281	\$ 529	\$22,298,439	\$(30,940,572)	\$14,525,721
Provision for compensation expense related to stock options	-	-	-	-	-	-	64,896	-	64,896
Exercise of stock options	-	-	-	-	5,000	-	15,000	-	15,000
Net loss	-	-	-	-	-	-	-	(4,345,131)	(4,345,131)
Balance, September 30, 2017	<u>243,065</u>	<u>\$ 1,215,325</u>	<u>21,952</u>	<u>\$21,952,000</u>	<u>5,292,281</u>	<u>\$ 529</u>	<u>\$22,378,335</u>	<u>\$(35,285,703)</u>	<u>\$10,260,486</u>

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

FLEXSHOPPER, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the nine months ended September 30, 2017 and 2016
(unaudited)

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (4,345,131)	\$ (8,759,916)
Adjustments to reconcile net loss to net cash (used in) operating activities:		
Depreciation and impairment of lease merchandise	24,733,916	16,817,016
Other depreciation and amortization	1,536,491	1,111,026
Compensation expense related to issuance of stock options	64,896	124,244
Provision for doubtful accounts	14,357,461	9,260,469
Changes in operating assets and liabilities:		
Accounts receivable	(15,570,400)	(9,890,775)
Prepaid expenses and other	13,255	(92,188)
Lease merchandise	(17,315,091)	(16,414,758)
Security deposits	(10,207)	(143)
Accounts payable	(1,188,200)	801,278
Accrued payroll and related taxes	(147,388)	(126,617)
Accrued expenses	44,386	60,386
Net cash provided by (used in) operating activities	<u>2,173,988</u>	<u>(7,109,978)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment, including capitalized software costs	(1,487,441)	(1,436,701)
Net cash (used in) investing activities	<u>(1,487,441)</u>	<u>(1,436,701)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of loans from shareholder	-	1,000,000
Repayment of loans from shareholder	-	(1,000,000)
Proceeds from loan payable under credit agreement	-	1,941,359
Repayment of loan payable under credit agreement	(2,288,207)	(4,172,714)
Proceeds from exercise of stock options	15,000	42,500
Proceeds from sale of Series 2 Convertible Preferred Stock, net of related costs of \$1,519,339	-	20,432,661
Net cash (used in) provided by financing activities	<u>(2,273,207)</u>	<u>18,243,806</u>
(DECREASE) INCREASE IN CASH	(1,586,660)	9,697,127
CASH, beginning of period	<u>5,412,495</u>	<u>3,396,206</u>
CASH, end of period	<u>\$ 3,825,835</u>	<u>\$ 13,093,333</u>

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

FLEXSHOPPER, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the nine months ended September 30, 2017 and 2016
(unaudited)

	<u>2017</u>	<u>2016</u>
Supplemental cash flow information:		
Interest paid	\$ 1,179,826	\$ 1,124,342
Non-cash financing activities:		
Conversion of preferred stock to common stock	-	425,660
Warrants issued to placement agent in conjunction with sale of Series 2 Preferred Stock	-	150,451

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

FLEXSHOPPER, INC.
Notes To Consolidated Financial Statements
For the nine months ended September 30, 2017 and 2016
(Unaudited)

1. BASIS OF PRESENTATION

Our interim financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 8 of Regulation S-X and in conformity with accounting principles generally accepted in the United States of America (“GAAP”) applicable to interim financial information. Accordingly, the information presented in our interim financial statements does not include all information and disclosures necessary for a fair presentation of our financial position, results of operations and cash flows in conformity with GAAP for annual financial statements. In the opinion of management, these financial statements reflect all adjustments consisting of normal recurring accruals, necessary for a fair statement of our financial position, results of operations and cash flows for such periods. The results of operations for any interim period are not necessarily indicative of the results for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

The Company has experienced significant historical operating losses and negative operating cash flows to date. For the nine months ended September 30, 2017, the Company incurred a net loss of approximately \$4.3 million. For the year ended December 31, 2016, the Company incurred a net loss of approximately \$12.3 million and used approximately \$17.4 million in cash flows for operations. Despite such events, management believes that the Company will be able to meet its obligations as they become due through November 14, 2018 based on (1) positive working capital of approximately \$11.4 million at September 30, 2017, (2) the ability, to the extent required, to limit or eliminate discretionary spending related to marketing and advertising, (3) borrowing availability under its existing credit agreement to finance the purchase of new leased merchandise through April 1, 2018 (see Note 7), (4) the possibility of amending or extending the existing credit agreement, and (5) refinancing the existing credit agreement with a new credit facility prior to April 1, 2018, the date after which periodic payments are due to the lender in the current credit facility. There can be no assurance that the Company will be successful in renegotiating or replacing its existing credit agreement on terms acceptable to the Company. If the Company is unable to complete these plans it could have a material adverse effect on the Company.

The consolidated balance sheet as of December 31, 2016 contained herein has been derived from audited financial statements.

2. BUSINESS

FlexShopper, Inc. (the “Company”) is a corporation organized under the laws of the State of Delaware on August 16, 2006. The Company owns 100% of FlexShopper, LLC, a limited liability company incorporated under the laws of North Carolina on June 24, 2013. The Company is a holding corporation with no operations except for those conducted by FlexShopper, LLC. FlexShopper, LLC provides through e-commerce sites certain types of durable goods to consumers on a lease-to-own basis (“LTO”), including consumers of third party retailers and e-tailers.

In January 2015, in connection with the credit agreement entered into in March 2015 (see Note 7), FlexShopper 1, LLC and FlexShopper 2, LLC were organized as wholly owned Delaware subsidiaries of FlexShopper, LLC to conduct operations. FlexShopper, LLC together with its subsidiaries is hereafter referred to as “FlexShopper.”

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Revenue Recognition – Merchandise is leased to customers pursuant to lease purchase agreements which provide for weekly lease terms with non-refundable lease payments. Generally, the customer has the right to acquire title for ownership either through a 90 day same as cash option, an early purchase option, or through payments of all required lease payments, generally 52 weeks. On any current lease, customers have the option to cancel the agreement in accordance with lease terms and return the merchandise. Accordingly, customer agreements are accounted for as operating leases with lease revenues recognized in the month they are due on the accrual basis of accounting. Merchandise sales revenue is recognized when the customer exercises the purchase option and pays the purchase price. Revenue from processing fees earned upon exercise by the customer of the 90 day purchase option is recorded upon recognition of the related merchandise sales. Commencing in the quarter ended June 30, 2016, the Company discontinued charging a separate fee upon exercise of such option. Revenue for lease payments received prior to their due date is deferred and recognized as revenue in the period to which the payments relate. Revenues from leases and sales are reported net of sales taxes.

Accounts Receivable and Allowance for Doubtful Accounts – FlexShopper seeks to collect amounts owed under its leases from each customer on a weekly basis by charging their bank accounts or credit cards. Accounts receivable are principally comprised of lease payments currently owed to FlexShopper which are past due, as FlexShopper has been unable to successfully collect in the manner described above. Through June 30, 2016, an allowance for doubtful accounts was estimated by reserving all accounts in excess of four payments in arrears, adjusted for subsequent collections. Commencing in the quarter ended September 30, 2016, the estimate was revised to provide for doubtful accounts based upon revenues and historical experience of balances charged off as a percentage of revenues. The accounts receivable balances consisted of the following as of September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
Accounts receivable	\$ 6,506,104	\$ 11,690,495
Allowance for doubtful accounts	3,111,378	9,508,708
Accounts receivable, net	<u>\$ 3,394,726</u>	<u>\$ 2,181,787</u>

The allowance is a significant percentage of the balance because FlexShopper does not charge off any customer account until it has exhausted all collection efforts with respect to each account including attempts to repossess items. In addition, while collections are pursued, the same delinquent customers will continue to accrue weekly charges until they are charged off, with such charges being fully reserved for. Accounts receivable balances charged off against the allowance were \$7,133,260 and \$20,713,314 for the three and nine months ended September 30, 2017, respectively, and \$1,043,762 and \$2,786,979 for the three and nine months ended September 30, 2016, respectively.

Lease Merchandise – Until all payment obligations for ownership are satisfied under the lease agreement, the Company maintains ownership of the lease merchandise. Lease merchandise consists primarily of residential furniture, consumer electronics, computers, appliances and household accessories and is recorded at cost net of accumulated depreciation. The Company depreciates leased merchandise using the straight line method over the applicable agreement period for a consumer to acquire ownership, generally twelve months with no salvage value. Upon transfer of ownership of merchandise to customers resulting from satisfaction of their lease obligations, the related cost and accumulated depreciation are eliminated from lease merchandise. For lease merchandise returned or anticipated to be returned either voluntarily or through repossession, the Company provides an impairment reserve for the undepreciated balance of the merchandise net of any estimated salvage value with a corresponding charge to cost of lease revenue. The cost, accumulated depreciation and impairment reserve related to such merchandise are written off upon determination that no salvage value is obtainable. The impairment charge amounted to approximately \$664,000 and \$3,948,000 for the three and nine months ended September 30, 2017, respectively, and \$603,000 and \$1,615,000 for the three and nine months ended September 30, 2016, respectively. The net leased merchandise balances consisted of the following as of September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
Lease merchandise at cost	\$ 25,837,079	\$ 33,264,810
Accumulated depreciation	(13,172,776)	(11,578,267)
Impairment reserve	(1,512,668)	(3,116,083)
Lease merchandise, net	<u>\$ 11,151,635</u>	<u>\$ 18,570,460</u>

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

Deferred Debt Issuance Costs – Debt issuance costs incurred in conjunction with the Credit Agreement entered into on March 6, 2016 (see Note 7) are offset against the outstanding balance of the loan payable and are amortized using the straight line method over the remaining term of the credit facility. Amortization, which is included in interest expense, was computed using the straight line method over the term of the related debt, which approximates the effective interest method, was \$118,404 and \$355,212 for the three and nine months ended September 30, 2017, respectively, and \$118,405 and \$332,900 for the three and nine months ended September 30, 2016, respectively.

Intangible Assets – Intangible assets consist of a pending patent on the Company’s LTO payment method at check-out for third party e-commerce sites. Patents are stated at cost less accumulated amortization. Patent costs are amortized by using the straight line method over the legal life, or if shorter, the useful life of the patent, which has been estimated to be 10 years.

Software Costs – Costs related to developing or obtaining internal-use software incurred during the preliminary project and post-implementation stages of an internal use software project are expensed as incurred and certain costs incurred in the project’s application development stage are capitalized as property and equipment. The Company expenses costs related to the planning and operating stages of a website. Costs associated with minor enhancements and maintenance for the website are included in expenses as incurred. Direct costs incurred in the website’s development stage are capitalized as property and equipment. Capitalized software costs amounted to \$481,306 and \$1,419,273 for the three and nine months ended September 30, 2017, respectively, and \$507,738 and \$1,355,187 for the three and nine months ended September 30, 2016, respectively.

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

Marketing costs, which primarily consist of advertising, are charged to expense as incurred.

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

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

In computing diluted loss per share, no effect has been given to the issuance of common stock upon conversion or exercise of the following securities as their effect is anti-dilutive:

	Nine Months ended September 30,	
	2017	2016
Series 1 Convertible Preferred Stock	147,417	147,417
Series 2 Convertible Preferred Stock	2,710,124	2,711,124
Series 2 Convertible Preferred Stock issuable upon exercise of warrants	54,217	54,217
Common Stock Options	302,900	416,400
Common Stock Warrants	511,553	511,553
	<u>3,726,211</u>	<u>3,840,711</u>

Amounts of common stock set forth in the above table have been adjusted for the Reverse Split (see Note 4).

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

Compensation expense is determined by reference to the fair value of an award on the date of grant and is amortized on a straight-line basis over the vesting period. We have elected to use the Black-Scholes-Merton (BSM) pricing model to determine the fair value of all stock option awards (see Note 9).

Fair Value of Financial Instruments – The carrying value of certain financial instruments such as accounts receivable, accounts payable and accrued expenses approximates their fair value due to the short-term nature of their underlying terms. The carrying value of loans payable under the Credit Agreement increased by unamortized issuance costs (see Note 7) approximates fair value based upon its interest rate which approximates current market interest rates.

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

The Company recognizes a tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. As of September 30, 2017 and December 31, 2016, the Company has not recorded any unrecognized tax benefits.

Interest and penalties related to liabilities for uncertain tax positions, if any will be charged to interest and operating expenses, respectively.

Recent Accounting Pronouncements –

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, on revenue recognition. The new standard provides for a single five-step model to be applied to all revenue contracts with customers as well as requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows relating to customer contracts. Companies have an option to use either a retrospective approach or cumulative effect adjustment approach to implement the standard. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted, but not before the original effective date of the standard. The Company is currently evaluating the impact of the new guidance including method of adoption and related financial statement disclosures, but preliminarily does not anticipate a material impact on its financial statements as a majority of the Company's revenue generating activities are leasing arrangements which are outside the scope of the guidance.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018 with early adoption permitted. Under ASU 2016-02, lessees will be required to recognize for all leases at the commencement date a lease liability, which is a lessee's obligation to make lease payments arising from a lease measured on a discounted basis, and a right-to-use asset, which is an asset that represents the lessee's right to use or control the use of a specified asset for the lease term. Lessor guidance is largely unchanged. The Company is currently evaluating the effect that the new guidance will have on its financial statements.

4. REVERSE STOCK SPLIT

On October 14, 2016, the Company filed with the Secretary of State of the State of Delaware a certificate of amendment (the "Certificate of Amendment") to its certificate of incorporation, which Certificate of Amendment effectuated as of October 24, 2016 at 11:59 p.m. Eastern Time (the "Effective Time") a reverse split of the Company's common stock by a ratio of one-for-10 (the "Reverse Split"). At the Effective Time, 52,870,398 outstanding shares of the Company's common stock converted into 5,287,040 shares of the Company's common stock. All per share amounts and number of shares in the consolidated financial statements and related notes have been retroactively restated to reflect the Reverse Split. The Reverse Split did not change the number of shares of common or preferred stock that the Company is authorized to issue, or the par value of the Company's common or preferred stock.

The Reverse Split resulted in a proportionate adjustment to the per share conversion or exercise price and the number of shares of common stock issuable upon the conversion or exercise of outstanding preferred stock, stock options and warrants, as well as the number of shares of common stock eligible for issuance under the Company's 2007 Omnibus Equity Compensation Plan and 2015 Omnibus Equity Compensation Plan.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	Estimated Useful Lives	September 30, 2017	December 31, 2016
Furniture and fixtures	2-5 years	\$ 106,139	\$ 98,564
Website and internal use software	3 years	5,352,872	3,933,600
Computers and software	3-7 years	680,071	619,477
		6,139,082	4,651,641
Less: accumulated depreciation and amortization		(3,290,099)	(2,111,127)
		<u>\$ 2,848,983</u>	<u>\$ 2,540,514</u>

Depreciation and amortization expense was \$414,674 and \$294,616 for the three months ended September 30, 2017 and 2016, respectively, and \$1,178,972 and \$775,818 for the nine months ended September 30, 2017 and 2016, respectively.

6. LOANS PAYABLE TO SHAREHOLDER

On February 11, 2016, the Company entered into a secured Promissory Note with a principal stockholder for \$1,000,000 at an interest rate of 15% per annum, payable upon demand, secured by substantially all of the Company's assets. The Promissory Note was paid in full with interest amounting to \$51,250 on June 13, 2016.

7. LOAN PAYABLE UNDER CREDIT AGREEMENT

On March 6, 2015, FlexShopper entered into a credit agreement (as amended from time to time, and including the Fee Letter (as defined therein), the “Credit Agreement”) with Wells Fargo Bank, National Association as paying agent, various lenders from time to time party thereto and WE 2014-1, LLC as administrative agent and lender (the “Lender”). FlexShopper is permitted to borrow funds under the Credit Agreement based on FlexShopper’s cash on hand and the Amortized Order Value of its Eligible Leases (as such terms are defined in the Credit Agreement) less certain deductions described in the Credit Agreement. Under the terms of the Credit Agreement, subject to the satisfaction of certain conditions, FlexShopper may borrow up to \$25,000,000 from the Lender for a term of two years from the date of the Credit Agreement (which term has since been extended, as described below). The borrowing term may be extended in the sole discretion of the Lender. The Credit Agreement contemplates that the Lender may provide additional debt financing to FlexShopper, up to \$100 million in total, under two uncommitted accordions following satisfaction of certain covenants and other terms and conditions. The Lender receives security interests in certain leases as collateral under the Credit Agreement. Prior to the January 2017 amendment described below, amounts borrowed bore interest at the rate of LIBOR plus 15% per annum and a small non-usage fee was assessed on any undrawn amount if the facility is less than 80% drawn on average in any given measurement period. Interest is payable monthly on the outstanding balance of amounts borrowed and, prior to the amendment referred to below, commencing on and after May 6, 2017, principal together with interest thereon was payable periodically through May 6, 2018, the maturity date of the loan, as such date may have been extended in accordance with the Credit Agreement.

In January 2017, the Credit Agreement was amended to reduce the interest being charged on amounts borrowed to be LIBOR plus 14% per annum and reduce the non-usage fee on undrawn amounts if the facility is less than 75% drawn on average. Additionally, the Commitment Termination Date (as defined in the Credit Agreement) was extended from May 6, 2017 to April 1, 2018. Accordingly, commencing on or after April 1, 2018, principal together with the interest thereon is payable periodically through April 1, 2019, the amended maturity date of the loan, as such date may be extended in accordance with the Credit Agreement.

Principal payable within twelve months of the balance sheet date based on the outstanding loan balance at such date is reflected as a current liability in the accompanying balance sheets. Interest expense incurred under the Credit Agreement amounted to \$385,989 and \$1,256,475 for the three and nine months ended September 30, 2017, respectively, and \$340,955 and \$1,061,392 for the three and nine months ended September 30, 2016, respectively. As of September 30, 2017, the outstanding balance under the Credit Agreement was \$8,500,000. The Company repaid \$788,207 in the second quarter of 2017 as a result of a pay down of the seasonal over advance from 2016. The Company repaid \$2,288,207 in the third quarter of 2017 as a result of lower quarter over quarter lease origination, and \$4,172,174 in 2016, resulting primarily from the repayment of the Bridge Loan Amount upon the Equity Raise as described in the fourth amendment to the Credit Agreement.

The Credit Agreement provides that FlexShopper may not incur additional indebtedness (other than expressly permitted indebtedness) without the permission of the Lender and also prohibits dividends on common stock. The Credit Agreement includes customary events of default, including, among others, failures to make payment of principal and interest, breaches or defaults under the terms of the Credit Agreement and related agreements entered into with the Lender, breaches of representations, warranties or certifications made by or on behalf of FlexShopper in the Credit Agreement and related documents (including certain financial and expense covenants), deficiencies in the borrowing base, certain judgments against FlexShopper and bankruptcy events.

Prior to the amendment described below, the Credit Agreement contained financial covenants requiring the Company and its subsidiaries to maintain as of the last day of each fiscal quarter during the term of the agreement minimum amounts of Unrestricted Cash and Equity Book Value and to achieve Adjusted Operating Cash Flow of not less than certain amounts during such quarters (all such terms as defined in the Credit Agreement). As of December 31, 2015, the Company was in violation of the covenant requiring an Equity Book Value of at least \$7.0 million as of such date. Under the fourth amendment to the Credit Agreement, the Lender waived this violation. The covenant also required the Company and its subsidiaries to maintain an Equity Book Value of at least \$7 million at each of June 30, March 31 and December 31, 2016, increasing to \$10 million at the end of each quarter from March 31 through December 31, 2017. On January 27, 2017, the Equity Book Value covenant was amended as discussed below.

On January 27, 2017, FlexShopper entered into a fifth amendment to the Credit Agreement (the “Omnibus Amendment”). The Omnibus Amendment amended the Credit Agreement to, among other things, (1) extend the Commitment Termination Date from May 6, 2017 to April 1, 2018 (with a one-time right of extension by the lenders up to August 31, 2018), (2) require the Borrower to refinance the debt under the Credit Agreement upon a Permitted Change of Control (as defined in the Credit Agreement), subject to the payment of an early termination fee, (3) reduce the interest rate charged on amounts borrowed to be LIBOR plus 14% per annum and reduce the non-usage fee on undrawn amounts if the facility is less than 75% drawn on average, and (4) modify certain permitted debt and financial covenants. These modified covenants consist of a reduction of Equity Book Value to not be less than the sum of \$6 million and 20% of any additional equity capital invested into the Company after December 31, 2016; maintaining at least \$1.5 million in Unrestricted Cash; and the ratio of Consolidated Total Debt to Equity Book Value not exceeding 4.75:1. The Company was in compliance with its covenants as of September 30, 2017. The Company had \$16,500,000 available under the Credit Agreement as of September 30, 2017.

8. CAPITAL STRUCTURE

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

The Company was authorized to issue 10,000,000 shares of \$0.001 par value preferred stock. On May 10, 2017, the Company’s stockholders approved an amendment to its Certificate of Incorporation to reduce the number of authorized shares of preferred stock to 500,000 shares. The Company’s Board of Directors determines the rights and preferences of the Company’s preferred stock.

Series 1 Convertible Preferred Stock – On January 31, 2007, the Company filed a Certificate of Designations with the Secretary of State of Delaware. 250,000 preferred shares are designated as Series 1 Convertible Preferred Stock. Series 1 Convertible Preferred Stock ranks senior to common stock.

As of September 30, 2017, each share of Series 1 Convertible Preferred Stock was convertible into 0.60649 shares of the Company’s common stock, subject to certain anti-dilution rights. The holders of the Series 1 Convertible Preferred Stock have the option to convert the shares to common stock at any time. Upon conversion, all accumulated and unpaid dividends, if any, will be paid as additional shares of common stock. The holders of Series 1 Convertible Preferred Stock have the same dividend rights as holders of common stock, as if the Series 1 Convertible Preferred Stock had been converted to common stock.

During the year ended December 31, 2016, 85,132 shares of Series 1 Convertible Preferred Stock were converted into 51,983 shares of common stock. As of September 30, 2017, there were 243,065 shares of Series 1 Convertible Preferred Stock outstanding, which are convertible into 147,417 shares of common stock.

Series 2 Convertible Preferred Stock – On June 10, 2016, the Company entered into a Subscription Agreement with B2 FIE V LLC (the “Investor”), an entity affiliated with Pacific Investment Management Company LLC, providing for the issuance and sale of 20,000 shares of Series 2 Convertible Preferred Stock for gross proceeds of \$20.0 million. The Company sold an additional 1,952 shares of Series 2 Convertible Preferred Stock to a different investor for gross proceeds of \$1.95 million at a subsequent closing.

Pursuant to the authority expressly granted to the Board of Directors by the provisions of the Company’s Certificate of Incorporation, the Board of Directors of the Company created and designated 25,000 shares of Series 2 Convertible Preferred Stock, par value \$.001 per share (“Series 2 Preferred Shares”), by filing a Certificate of Designations with the Delaware Secretary of State (the “Series 2 Certificate of Designations”). The Series 2 Preferred Shares were sold for \$1,000 per share (the “Stated Value”) and accrue dividends on the Stated Value at an annual rate of 10% compounded annually. Cumulative dividends in arrears totaled \$2,924,681 at September 30, 2017. Each Series 2 Preferred Share is convertible at a conversion price of \$8.10 into approximately 124 shares of common stock; provided, the conversion price is subject to reduction pursuant to a weighted average anti-dilution provision contained in the Series 2 Certificate of Designations. The holders of the Series 2 Preferred Shares have the option to convert such shares into shares of common stock and have the right to vote with holders of common stock on an as-converted basis. If, during the two year period commencing on the date of issuance, the average closing price during any 45 consecutive trading day period equals or exceeds \$17.50 per common share, or a change of control transaction (as defined in the Series 2 Certificate of Designations) values the Company’s common stock at \$17.50 per share or greater; or after this two year period the average closing price during any 45 day consecutive trading day period or change of control transaction values the common stock at a price equal to or greater than \$23.00 per share, then conversion shall be automatic. Upon a Liquidation Event or Deemed Liquidation Event (each as defined in the Series 2 Certificate of Designations), holders of Series 2 Preferred Shares shall be entitled to receive out of the assets of the Company prior to and in preference to the common stock and Series 1 Convertible Preferred Stock an amount equal to the greater of (1) the Stated Value, plus any accrued and unpaid dividends thereon, and (2) the amount per share as would have been payable had all Series 2 Preferred Shares been converted to common stock immediately before the Liquidation Event or Deemed Liquidation Event.

Common Stock – The Company was authorized to issue 100,000,000 shares of \$0.0001 par value common stock. On May 10, 2017, at the Company’s annual meeting of stockholders, the Company’s stockholders approved an amendment to the Certificate of Incorporation to reduce the Company’s authorized shares of common stock to 15,000,000. Each share of common stock entitles the holder to one vote at all stockholder meetings.

In connection with entering into the Credit Agreement on March 6, 2015, the Company raised approximately \$8.6 million in net proceeds through direct sales of 1.7 million shares of its common stock to certain affiliates of the Lender and other accredited investors for a purchase price of \$5.50 per share. As a result of the sale to certain affiliates, the Lender is considered a beneficial shareholder of the Company.

On March 17, 2016, the Company’s stockholders, acting by written consent, approved an amendment to the Certificate of Incorporation to effect a reverse stock split of the Company’s common stock. On October 14, 2016, the Company filed with the Secretary of State of the State of Delaware a certificate of amendment (the “Certificate of Amendment”) to its certificate of incorporation, which Certificate of Amendment effectuated as of October 24, 2016 at 11:59 p.m. Eastern Time the Reverse Split by a ratio of one-for-10 (see Note 4). All share and per share data in these financial statements and footnotes have been retrospectively adjusted to account for the Reverse Split.

9. STOCK OPTIONS

On January 31, 2007, the Board of Directors adopted our 2007 Omnibus Equity Compensation Plan (the “2007 Plan”), with 210,000 common shares authorized for issuance under the 2007 Plan. In October 2009, the Company’s stockholders approved an increase in the number of shares covered by the 2007 Plan to 420,000 shares. On March 26, 2015, the Board adopted our 2015 Omnibus Equity Compensation Plan (the “2015 Plan”), with 400,000 common shares authorized for issuance under the 2015 Plan, which was ratified by the Company’s stockholders on March 15, 2015. The 2007 Plan and 2015 Plan are collectively referred to as the “Plans.” Grants under the Plans may consist of incentive stock options, non-qualified stock options, stock appreciation rights, stock awards, stock unit awards, dividend equivalents and other stock based awards. Employees, directors and consultants and other service providers are eligible to participate in the Plans. Options granted under the Plans vest over periods ranging from immediately upon grant to a three year period and expire ten years from date of grant.

Activity in stock options for the nine months ended September 30, 2017 follows:

	Number of shares	Weighted average exercise price	Weighted average contractual term (years)	Aggregate intrinsic value
Outstanding at January 1, 2017	411,600	\$ 8.63		
Granted	73,000	4.31		
Forfeited	(16,700)	6.01		
Expired	(160,000)	12.50		
Exercised	(5,000)	3.00		
Outstanding at September 30, 2017	<u>302,900</u>	<u>\$ 5.78</u>	<u>7.15</u>	<u>\$ 188,859</u>
Vested and exercisable at September 30, 2017	<u>203,000</u>	<u>\$ 6.32</u>	<u>6.17</u>	<u>\$ 103,659</u>
Vested and exercisable at September 30, 2017 and expected to vest thereafter	<u>298,000</u>	<u>\$ 6.32</u>	<u>7.15</u>	<u>\$ 188,859</u>

The weighted average grant date fair value of options granted during the nine month period ending September 30, 2017 was \$1.69 per share. The Company measured the fair value of each option award on the date of grant using the Black-Scholes-Merton (BSM) pricing model with the following assumptions:

	2017
Exercise price	\$4.02 to \$5.25
Expected life	6 years
Expected volatility	38%
Dividend yield	0%
Risk-free interest rate	1.98% to 2.06%

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

The value of stock options is recognized as compensation expense by the straight line method over the vesting period. Compensation expense recorded for options in the statements of operations was \$22,685 and \$64,896, for the three and nine months ended September 30, 2017, respectively and \$45,863 and \$124,244 for the three and nine months ended September 30, 2016, respectively. Unrecognized compensation cost related to non-vested options at September 30, 2017 amounted to approximately \$126,000, which is expected to be recognized over a weighted average period of 2.1 years.

10. WARRANTS

On June 24, 2016, the Company granted warrants to one of the Company's placement agents to purchase 439 shares of the Company's Series 2 Convertible Preferred Stock at an initial exercise price of \$1,250 per share. The exercise price and aggregate number of shares are subject to adjustment as set forth in the agreement.

The following information was input into the Black Scholes pricing model to compute a total fair value of \$150,451.

Exercise price	\$1,250
Expected life	7 years
Expected volatility	38%
Dividend yield	0%
Risk-free interest rate	1.35%

The following table summarizes information about outstanding stock warrants as of September 30, 2017, all of which are exercisable:

Exercise Price	Common Stock Warrants Outstanding	Series 2 Preferred Stock Warrants Outstanding	Weighted Average Remaining Contractual Life
\$ 11.00	134,250		2 years
\$ 10.00	200,000		4 years
\$ 5.50	177,303		5 years
\$ 1,250	-	439	7 years
	<u>511,553</u>	<u>439</u>	

11. INCOME TAXES

As of December 31, 2016, the Company has federal net operating loss carryforwards of approximately \$15,075,000 and state net operating loss carryforwards of approximately \$10,109,000 available to offset future taxable income, which expire from 2023 to 2036.

The Company expects its effective tax rate for the year ending December 31, 2017 to be zero due to its history of net operating losses and recording a full valuation allowance on deferred tax assets. As a result the Company estimated its effective tax rate for the three and nine months ended September 30, 2017 to be zero.

The Company's use of net operating loss carryforwards may be subject to limitations imposed by the Internal Revenue Code. Management believes that the deferred tax asset as of September 30, 2017 does not satisfy the realization criteria and has recorded a valuation allowance to offset the tax asset.

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

This discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and the related notes appearing at the end of our Form 10-K for the fiscal year ended December 31, 2016. Some of the information contained in this discussion and analysis or set forth elsewhere in this Form 10-Q, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties. The "Risk Factors" section of our Form 10-K for the fiscal year ended December 31, 2016 should be read for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Executive Overview

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

Summary of Critical Accounting Policies

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

Accounts Receivable and Allowance for Doubtful Accounts – FlexShopper seeks to collect amounts owed under its leases from each customer on a weekly basis by charging their bank accounts or credit cards. Accounts receivable are principally comprised of lease payments currently owed to FlexShopper which are past due as FlexShopper has been unable to successfully collect in the manner described above. Through June 30, 2016, an allowance for doubtful accounts was estimated by reserving all accounts in excess of four payments in arrears, adjusted for subsequent collections. Commencing in the quarter ended September 30, 2016, the estimate was revised to provide for doubtful accounts based upon revenues and historical experience of balances charged off as a percentage of revenues. The accounts receivable balances consisted of the following as of September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016
Accounts receivable	\$ 6,506,104	\$ 11,690,495
Allowance for doubtful accounts	3,111,378	9,508,708
Accounts receivable, net	<u>\$ 3,394,726</u>	<u>\$ 2,181,787</u>

The allowance is a significant percentage of the balance because FlexShopper does not charge off any customer account until it has exhausted all collection efforts with respect to each account including attempts to repossess items. In addition, while collections are pursued, the same delinquent customers will continue to accrue weekly charges until they are charged off. Accounts receivable balances charged off against the allowance were \$7,133,260 and \$20,713,314 for the three and nine months ended September 30, 2017 and \$1,043,762 and \$2,786,979 for the three and nine months ended September 30, 2016, respectively.

Lease Merchandise – Until all payment obligations required for ownership are satisfied under the lease agreement, FlexShopper maintains ownership of the lease merchandise. Lease merchandise consists primarily of residential furniture, consumer electronics, computers, appliances and household accessories and is recorded at cost net of accumulated depreciation. The Company depreciates leased merchandise using the straight line method over the applicable agreement period for a consumer to acquire ownership, generally twelve months with no salvage value.

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

Key Performance Metrics

We regularly review a number of metrics, including the following key metrics, to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections and make strategic decisions. Key performance metrics for the three months ended September 30, 2017 are as follows:

Adjusted Gross Profit	Three Months ended September 30,		\$ Change	% Change
	2017	2016		
Lease revenues and fees	\$ 16,144,184	\$ 12,072,493	\$ 4,071,691	33.7
Lease merchandise sold	359,656	255,431	104,225	40.8
Less: Cost of merchandise sold	280,130	182,879	97,251	53.2
Less: Provision for doubtful accounts	4,681,832	3,501,023	1,180,809	33.7
Net revenues	11,541,878	8,644,022	2,897,856	33.5
Less: Cost of lease revenues, consisting of depreciation and impairment of lease merchandise	8,146,293	5,525,701	2,620,592	47.4
Adjusted gross profit	\$ 3,395,585	\$ 3,118,321	\$ 277,264	8.9
Gross profit margin	29%	36%		
Net revenues as a percentage of cost of lease revenue	140%	155%		

Adjusted EBITDA	Three Months ended September 30,		\$ Change	% Change
	2017	2016		
Net Loss	\$ (1,727,617)	\$ (2,613,492)	\$ 885,875	(33.9)
Add back: Amortization of debt costs	118,404	118,404	-	-
Add back: Other amortization and depreciation	415,443	295,386	120,057	40.6
Add back: Interest expense	385,989	340,955	45,034	13.2
Add back: Stock compensation	22,685	45,863	(23,178)	(50.5)
Adjusted EBITDA	\$ (785,096)*	\$ (1,812,884)*	\$ 1,027,788	(56.7)

Key performance metrics for the nine months ended September 30, 2017 are as follows:

Adjusted Gross Profit	Nine Months ended September 30,		\$ Change	% Change
	2017	2016		
Lease revenues and fees	\$ 49,458,109	\$ 32,505,343	\$ 16,952,766	52.1
Lease merchandise sold	1,174,608	747,747	426,861	57.0
Less: Cost of merchandise sold	816,058	498,594	317,464	63.7
Less: Provision for doubtful accounts	14,357,461	9,260,469	5,096,992	55.0
Net revenues	35,459,198	23,494,027	11,965,171	50.9
Less: Cost of lease revenues, consisting of depreciation and impairment of lease merchandise	24,733,915	16,817,016	7,916,899	47.1
Adjusted gross profit	\$ 10,725,283	\$ 6,677,011	\$ 4,048,272	60.6
Gross profit margin	30%	28%		
Net revenues as a percentage of cost of lease revenue	142%	139%		

Adjusted EBITDA	Nine Months ended September 30,		\$ Change	% Change
	2017	2016		
Net Loss	\$ (4,345,131)	\$ (8,759,916)	\$ 4,414,785	(50.4)
Add back: Amortization of debt costs	355,212	332,900	22,312	6.7
Add back: Other amortization and depreciation	1,181,279	778,125	403,154	51.8
Add back: Interest expense	1,256,475	1,112,642	143,833	12.9
Add back: Stock compensation	64,896	124,244	(59,348)	(47.8)
Adjusted EBITDA	\$ (1,487,269)*	\$ (6,412,005)*	\$ 4,924,736	(76.8)

* Represents loss

We refer to Adjusted Gross Profit and Adjusted EBITDA in the above tables as we use these measures to evaluate our operating performance and make strategic decisions about the Company. Management believes that Adjusted Gross Profit and Adjusted EBITDA provide relevant and useful information which is widely used by analysts, investors and competitors in our industry in assessing performance.

Adjusted Gross Profit represents GAAP revenue less the provision for doubtful accounts and cost of leased inventory and inventory sold. Adjusted Gross Profit provides us with an understanding of the results from the primary operations of our business. We use Adjusted Gross Profit to evaluate our period-over-period operating performance. This measure may be useful to an investor in evaluating the underlying operating performance of our business.

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

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

Adjusted Gross Profit and Adjusted EBITDA are supplemental measures of FlexShopper's performance that are neither required by, nor presented in accordance with, GAAP. Adjusted Gross Profit and Adjusted EBITDA should not be considered as substitutes for GAAP metrics such as operating loss, net income or any other performance measures derived in accordance with GAAP.

Results of Operations

Three Months Ended September 30, 2017 compared to Three Months Ended September 30, 2016

The following table details operating results for the three months ended September 30, 2017 and 2016:

	2017	2016	\$ Change	% Change
Total revenues	\$ 16,503,840	\$ 12,327,924	\$ 4,175,916	33.9
Cost of lease revenue and merchandise sold	8,426,423	5,708,580	2,717,843	47.6
Provision for doubtful accounts	4,681,832	3,501,023	1,180,809	33.7
Marketing	994,576	2,442,243	(1,447,667)	(59.2)
Salaries and benefits	1,900,925	1,522,792	378,133	24.8
Other operating expenses	1,723,309	1,307,418	415,891	31.8
Operating loss	(1,223,225)	(2,154,132)	930,907	43.2
Interest expense	504,392	459,360	45,032	9.8
Net loss	<u>\$ (1,727,617)</u>	<u>\$ (2,613,492)</u>	<u>\$ 885,875</u>	<u>33.9</u>

Total lease revenues for the three months ended September 30, 2017 were \$16,503,839 compared to \$12,327,924 for the three months ended September 30, 2016, representing an increase of \$4,175,915, or 33.9%. FlexShopper originated 13,893 leases for the three months ended September 30, 2017 compared to 15,594 leases for the comparable period last year. FlexShopper is strategically optimizing and shifting marketing spend into the fourth quarter, a period of seasonally high demand. Cumulative growth in lease originations in current and prior periods, along with repeat customers, increases in lease values and efficient marketing spend are primarily responsible for the increase in revenue for the quarter.

Cost of lease revenue and merchandise sold for the three months ended September 30, 2017 was \$8,426,423 compared to \$5,708,580 for the three months ended September 30, 2016, representing an increase of \$2,717,843, or 47.6%. Cost of lease revenue and merchandise sold for the three months ended September 30, 2017 is comprised of depreciation expense on lease merchandise of \$8,146,293 and the net book value of merchandise sold of \$280,130. Cost of lease revenue and merchandise sold for the three months ended September 30, 2016 is comprised of depreciation expense on lease merchandise of \$5,525,701, the net book value of merchandise sold of \$182,879. As the Company's lease revenues increase, the direct costs associated with them also increase.

Provision for doubtful accounts was \$4,681,832 and \$3,501,023 for the three months ended September 30, 2017 and 2016, respectively. The primary reason for the increase is that the Company does not charge off any customer accounts until it has exhausted all collection efforts, including attempts to repossess items. While collection efforts are pursued, delinquent customers continue to accrue weekly charges resulting in a significant balance requiring a reserve. The Company anticipates improvement in the performance of its lease portfolio as it continues to refine its underwriting model, enhances its risk department and accumulates additional lease data. During the three months ended September 30, 2017 and 2016, \$7,133,260 and \$1,043,762 of accounts receivable balances were charged off against the allowance, respectively, after the Company exhausted all collection efforts with respect to such accounts. The significant increase was due to there being a much smaller and younger portfolio of leases against which charge-offs were made in the prior year period.

Marketing expenses in the third quarter of 2017 were \$994,576, compared to \$2,442,243 in the third quarter of 2016 for a decrease of \$1,447,667, or 59.2%. FlexShopper is strategically optimizing and shifting marketing spend into the fourth quarter, a period of seasonally high demand.

Salary and benefits expenses in the third quarter of 2017 were \$1,900,925 compared to \$1,522,792 in the third quarter of 2016 for an increase of \$378,133, or 24.8%. Additional call center personnel needed to support the increase in revenues as well as continued investment in our software engineering team are the primary reasons for the increase in salaries and benefits expenses.

Operating expenses for the three months ended September 30, 2017 and 2016 included the following:

	Three months ended September 30, 2017	Three months ended September 30, 2016
Amortization and depreciation	\$ 533,847	\$ 295,385
Computer and internet expenses	349,775	73,064
Legal and professional fees	185,291	170,101
Merchant bank fees	257,854	162,858
Stock compensation expense	22,685	45,863
Other	373,856	560,147
Total	\$ 1,723,308	\$ 1,307,418

Nine Months September 30, 2017 compared to Nine Months Ended September 30, 2016

The following table details operating results for the nine months ended September 30, 2017 and 2016:

	2017	2016	\$ Change	% Change
Total revenues	\$ 50,632,717	\$ 33,253,090	\$ 17,379,627	52.3
Cost of lease revenue and merchandise sold	25,549,973	17,315,610	8,234,363	47.5
Provision for doubtful accounts	14,357,461	9,260,469	5,096,992	55.0
Marketing	2,625,367	6,186,417	(3,561,050)	(57.6)
Salaries and benefits	5,567,082	4,258,753	1,308,329	30.7
Other operating expenses	5,266,278	3,546,215	1,720,063	48.5
Operating loss	(2,733,444)	(7,314,374)	4,580,930	62.6
Interest expense	1,611,687	1,445,542	166,145	11.5
Net loss	\$ (4,345,131)	\$ (8,759,916)	\$ 4,414,785	50.4

Total lease revenues for the nine months ended September 30, 2017 were \$50,632,717 compared to \$33,253,090 for the nine months ended September 30, 2016, representing an increase of \$17,379,627, or 52.3%. FlexShopper originated 43,992 leases for the nine months ended September 30, 2017 compared to 35,741 leases for the comparable period last year. Continued growth in repeat customers coupled with more efficient marketing spend is primarily responsible for the increase in revenue and leases.

Cost of lease revenue and merchandise sold for the nine months ended September 30, 2017 was \$25,549,973 compared to \$17,315,610 for the nine months ended September 30, 2016, representing an increase of \$8,234,363, or 47.6%. Cost of lease revenue and merchandise sold for the nine months ended September 30, 2017 is comprised of depreciation expense on lease merchandise of \$24,733,915 and the net book value of merchandise sold of \$816,058. Cost of lease revenue and merchandise sold for the nine months ended September 30, 2016 is comprised of depreciation expense on lease merchandise of \$16,817,016, the net book value of merchandise sold of \$498,594. As the Company's lease revenues increase, the direct costs associated with them also increase.

Provision for doubtful accounts was \$14,357,461 and \$9,260,469 for the nine months ended September 30, 2017 and 2016, respectively. The primary reason for the increase is that the Company does not charge off any customer accounts until it has exhausted all collection efforts, including attempts to repossess items. While collection efforts are pursued, delinquent customers continue to accrue weekly charges resulting in a significant balance requiring a reserve. The Company anticipates improvement in the performance of its lease portfolio as it continues to refine its underwriting model, enhances its risk department and accumulates additional lease data. During the nine months ended September 30, 2017 and 2016, \$20,713,314 and \$2,786,979 of accounts receivable balances were charged off against the allowance, respectively, after the Company exhausted all collection efforts with respect to such accounts. The significant increase was due to there being a much smaller and younger portfolio of leases against which charge-offs were made in the prior year period.

Marketing expenses in the first nine months of 2017 were \$2,625,367, compared to \$6,186,417 in the nine months of 2016 for a decrease of \$3,561,050, or 57.6%. Recognizing the seasonality of its business and periods of less consumer demand for consumer electronics, the Company strategically reduced marketing expenditures to continue to optimize customer acquisition costs.

Salary and benefits expenses in the first nine months of 2017 were \$5,567,082 compared to \$4,258,753 for the same period of 2016 for an increase of \$1,308,329, or 30.7%. Additional call center personnel needed to support the increase in leases and revenues as well as continued investment in our software engineering team to innovate and enhance our technology platform are the primary reasons for the increase in salaries and benefits expenses.

Operating expenses for the nine months ended September 30, 2017 and 2016 included the following:

	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Amortization and depreciation	\$ 1,536,491	\$ 778,125
Computer and internet expenses	894,924	188,082
Legal and professional fees	706,480	446,591
Merchant bank fees	749,791	427,601
Stock compensation expense	64,896	124,244
Other	1,313,696	1,581,572
Total	\$ 5,266,278	\$ 3,546,215

Plan of Operation

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

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

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

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

Liquidity and Capital Resources

As of September 30, 2017, the Company had cash of \$3,825,835 compared to \$13,093,333 at the same date in 2016.

As of September 30, 2017, the Company had net accounts receivable of \$3,394,726 consisting of gross receivables of \$6,506,104 offset by an allowance for doubtful accounts of \$3,111,378. Accounts receivable are principally comprised of lease payments owed to the Company. An allowance for doubtful accounts is estimated based upon historical collection and delinquency percentages.

Recent Financings

From the beginning of 2016 through September 30, 2017, FlexShopper completed the following transactions, each of which has provided liquidity and cash resources to FlexShopper.

1. On February 11, 2016, FlexShopper entered into a secured promissory note with a principal stockholder for \$1,000,000 at an interest rate of 15% per annum, payable upon demand, secured by substantially all of the Company's assets.
2. On March 29, 2016, we entered into a fourth amendment and waiver (the "Fourth Amendment") to the credit agreement (the "Credit Agreement") among FlexShopper 2, LLC, Wells Fargo Bank, National Association, various Lenders from time to time party thereto and WE2014-1, LLC (the "Lender"). The Fourth Amendment amends the Credit Agreement to, among other things, increase the amount of the Borrowing Base (as defined in the Credit Agreement) until the earlier of (i) April 1, 2017 and (ii) the successful raising by the Company of at least \$10,000,000 in equity funding (the "Equity Raise"). The Fourth Amendment also includes a waiver of (A) breaches resulting from the Borrower's non-compliance with certain financial covenants under the Credit Agreement that occurred prior to the effectiveness of the Fourth Amendment and (B) compliance with certain financial covenants under the Credit Agreement for the period from the date of the Fourth Amendment through the earlier of April 1, 2017 or the completion of the Equity Raise. If we fail to maintain compliance with the covenants thereafter, the Lender would be able to accelerate the required repayment of amounts due under the Credit Agreement and, if they are not repaid, could foreclose upon our assets securing our obligations under the Credit Agreement.
3. On June 10, 2016, the Company entered into a Subscription Agreement with B2 FIE V LLC, an entity affiliated with Pacific Investment Management Company LLC, providing for the issuance and sale of 20,000 shares of Series 2 Convertible Preferred Stock for gross proceeds of \$20.0 million. In addition, the Company sold an additional 1,950 shares of Series 2 Convertible Preferred Stock to certain other investors at a subsequent closing in June 2016 for gross proceeds of \$1.95 million.
4. On January 27, 2017, the Borrower entered into a fifth amendment (the "Omnibus Amendment") to the Credit Agreement. The Omnibus Amendment amends the Credit Agreement to, among other things, extend the Commitment Termination Date (as defined in the Credit Agreement) to April 1, 2018, lower the interest rate, require the Borrower to refinance the debt under the Credit Agreement upon a Permitted Change of Control (as defined in the Credit Agreement) and modify certain permitted debt and financial covenants.

Cash Flow Summary

Cash Flows from Operating Activities

Net cash provided by operating activities was \$2,173,989 for the nine months ended September 30, 2017 and was primarily due to the increase in net revenues and gross profit and more efficient marketing spend for the period.

Net cash used by operating activities was \$7,109,978 for the nine months ended September 30, 2016 and was primarily due to the net loss for the period.

Cash Flows from Investing Activities

For the nine months ended September 30, 2017, net cash used in investing activities was \$1,487,442, comprised of \$68,169 for the purchase of property and equipment and \$1,419,273 for capitalized software costs.

For the nine months ended September 30, 2016, net cash used in investing activities was \$1,436,701, comprised of \$81,514 for the purchase of property and equipment and \$1,355,187 for capitalized software costs.

Cash Flows from Financing Activities

Net cash used in financing activities was \$2,273,208 for the nine months ended September 30, 2017, comprised of repayments of amounts borrowed under the Credit Agreement of \$2,288,208, offset by proceeds from the exercise of stock options of \$15,000.

Net cash provided by financing activities was \$18,243,806 for the nine months ended September 30, 2016 primarily due to the proceeds from the sale of Series 2 Convertible Preferred Stock of \$21,952,000 net of related costs of \$1,519,339, and funds drawn on the Credit Agreement of \$2,341,359, offset by repayments of amounts borrowed under the Credit Agreement of \$4,172,714.

Capital Resources

The funds derived from the sale of FlexShopper's common stock and Series 2 Convertible Preferred Stock and FlexShopper's ability to borrow funds under the Credit Agreement have provided the liquidity and capital resources necessary for FlexShopper to purchase durable goods pursuant to lease-to-own transactions and to support FlexShopper's current general working capital needs. Management believes that the financing transactions described in this section above successfully renegotiated or replaced on terms acceptable to the Company will provide sufficient liquidity and capital resources for our anticipated needs through at least August 2018. However, there can be no assurances that unforeseen circumstances will not require the Company to raise additional investment capital sooner than expected. If the Company is unable to obtain additional required funding, the Company's financial condition and results of operations may be materially adversely affected.

Off-Balance Sheet Arrangements

The Company does not have any off balance sheet arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-15(e). In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level at September 30, 2017.

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS:

We are not a party to any pending material legal proceedings.

ITEM 1A. RISK FACTORS:

In addition to the other information set forth in this report, you should carefully consider the factors discussed under Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016. These factors could materially adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report. There have been no material changes to such risk factors.

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

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES:

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES:

Not applicable.

ITEM 5. OTHER INFORMATION:

On November 10, 2017, we filed with the Delaware Secretary of State a Certificate of Decrease of the Number of Authorized Shares of Preferred Stock of FlexShopper, Inc. Designated as Series 1 Preferred Stock (the "Certificate of Decrease"). A copy of the Certificate of Decrease is filed as an exhibit to this Form 10-Q.

ITEM 6. EXHIBITS:

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of FlexShopper, Inc. (previously filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 and incorporated herein by reference)
3.2	Certificate of Amendment to Certificate of Incorporation of FlexShopper, Inc. (previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on October 14, 2016 and incorporated herein by reference)
3.3	Certificate of Amendment to Certificate of Incorporation of FlexShopper, Inc. (previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on May 12, 2017 and incorporated herein by reference)
3.4	Amended and Restated Bylaws (previously filed as Exhibit 3.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 and incorporated herein by reference)
4.1	Common Stock Purchase Warrant, dated October 9, 2014, issued by FlexShopper, Inc. to Fordham Financial Management, Inc. (previously filed as Exhibit 4.1 to the Company's Registration Statement on Form S-1 (File No. 333-201644) and incorporated herein by reference)
4.2	Common Stock Purchase Warrant, dated October 9, 2014, issued by FlexShopper, Inc. to Paulson Investment Company, Inc. (previously filed as Exhibit 4.2 to the Company's Registration Statement on Form S-1 (File No. 333-201644) and incorporated herein by reference)
4.3	Common Stock Purchase Warrant, dated October 9, 2014, issued by FlexShopper, Inc. to Spartan Capital Securities, LLC (previously filed as Exhibit 4.3 to the Company's Registration Statement on Form S-1 (File No. 333-201644) and incorporated herein by reference)
4.4	Certificate of Designations of Series 1 Preferred Stock (previously filed as Exhibit 3.4 to the Company's General Form of Registration on Form 10-SB filed on April 30, 2007 and incorporated herein by reference)
4.5	Certificate of Designations for Series 2 Convertible Preferred Stock, dated as of June 10, 2016 (previously filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on June 13, 2016 and incorporated herein by reference)
4.6	Certificate of Decrease of the Number of Authorized Shares of Preferred Stock of FlexShopper, Inc. Designated as Series 1 Preferred Stock
31.1	Rule 13a-14(a) Certification – Principal Executive Officer*
31.2	Rule 13a-14(a) Certification – Principal Financial Officer*
32.1	Section 1350 Certification – Principal Executive Officer*
32.2	Section 1350 Certification – Principal Financial Officer*
101.INS	XBRL Instance Document, XBRL Taxonomy Extension Schema *
101.SCH	Document, XBRL Taxonomy Extension *
101.CAL	Calculation Linkbase, XBRL Taxonomy Extension Definition *
101.DEF	Linkbase, XBRL Taxonomy Extension Labels *
101.LAB	Linkbase, XBRL Taxonomy Extension *
101.PRE	Presentation Linkbase *

+ Indicates a management contract or any compensatory plan, contract or arrangement.

* Filed herewith.

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.

Date: November 14, 2017

FLEXSHOPPER, INC.

By: /s/ Brad Bernstein
Brad Bernstein
Chief Executive Officer, President and Chairman
(Principal Executive Officer)

Date: November 14, 2017

By: /s/ Russ Heiser
Russ Heiser
Chief Financial Officer
(Principal Financial and Accounting Officer)

**CERTIFICATE OF DECREASE OF THE NUMBER OF AUTHORIZED SHARES OF PREFERRED STOCK OF FLEXSHOPPER, INC.
DESIGNATED AS SERIES 1 PREFERRED STOCK**

(Pursuant to Section 151 of the General Corporation Law of the State of Delaware)

FlexShopper, Inc., a Delaware corporation (the "Corporation") makes the following certification.

FIRST: The Corporation, pursuant to authority conferred on the Board of Directors of the Corporation by its Certificate of Incorporation and in accordance with the provisions of Section 151 of the General Corporation Law of the State of Delaware, certifies that the Board of Directors of the Corporation, at a meeting thereof duly called and held on November 9, 2017, at which a quorum was present and acting throughout, duly adopted the following resolution:

"RESOLVED: That pursuant to the authority expressly granted and vested in the Board of Directors of the Corporation in accordance with the provisions of its Certificate of Incorporation, the number of shares of the Preferred Stock of the Corporation designated as Series 1 Preferred Stock be and hereby is reduced from 2,000,000 shares to 250,000, with the result that the Corporation shall have authority to issue 6,935 shares of Series 1 Preferred Stock, \$0.001 par value per share, which are set aside for designation from time to time by the Board of Directors of the Corporation in accordance with the provisions of the General Corporation Law of the State of Delaware that the President and Chief Financial Officer of the Corporation be and hereby are authorized and directed in the name and on behalf of the Corporation to execute and file a Certificate of Decrease with the Secretary of State of the State of Delaware and to take any and all other actions deemed necessary or appropriate to effectuate this resolution."

SECOND: This Certificate of Decrease of the Number of Authorized Shares of Preferred Stock of FlexShopper, Inc. Designated as Series 1 Preferred Stock shall become effective upon filing.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Corporation has caused its corporate seal to be affixed hereto and this Certificate of Decrease to be signed by its duly authorized officer this 9th day of November, 2017.

FLEXSHOPPER, INC.

By: /s/ Russ Heiser

Name: Russ Heiser

Title: Chief Financial Officer

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Brad Bernstein, certify that:

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

DATE: November 14, 2017

By: /s/ BRAD BERNSTEIN
Brad Bernstein
Principal Executive Officer

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Russ Heiser, certify that:

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

DATE: November 14, 2017

By: /s/ Russ Heiser
Russ Heiser
Chief Financial Officer

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

In connection with the Quarterly Report of FlexShopper, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brad Bernstein, Principal Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act, that:

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

By: /s/ BRAD BERNSTEIN
Brad Bernstein,
Principal Executive Officer
November 14, 2017

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

In connection with the Quarterly Report of FlexShopper, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Russ Heiser, Principal Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act, that:

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

By: /s/ Russ Heiser
Russ Heiser,
Chief Financial Officer
November 14, 2017

