

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

For The Quarterly Period Ended March 31, 2016

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, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

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

As of March 31, 2016, the Company had a total of 52,104,081 shares of Common Stock outstanding, excluding 328,197 outstanding shares of Series 1 Preferred Stock convertible into 2,077,487 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. 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**

	<u>March 31,</u> 2016	<u>December 31,</u> 2015
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash	\$ 1,641,596	\$ 3,396,206
Accounts receivable, net	851,214	752,159
Prepaid expenses	374,050	237,069
Lease merchandise, net	9,538,356	11,204,136
Total current assets	<u>12,405,216</u>	<u>15,589,570</u>
PROPERTY AND EQUIPMENT, net	<u>1,979,256</u>	<u>1,797,553</u>
OTHER ASSETS:		
Intangible assets – patent costs	22,647	23,416
Security deposits	65,408	66,758
	<u>88,055</u>	<u>90,174</u>
	<u>\$ 14,472,527</u>	<u>\$ 17,477,297</u>
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,966,547	\$ 1,783,929
Accrued payroll and related taxes	115,072	251,519
Accrued expenses	783,672	487,120
Loan payable to shareholder	1,000,000	–
Total current liabilities	<u>3,865,291</u>	<u>2,522,568</u>
Loan payable, net of \$985,250 in 2016 and \$832,792 in 2015 of unamortized issuance costs, to beneficial shareholder	7,032,542	8,786,770
Total liabilities	<u>10,897,833</u>	<u>11,309,338</u>
STOCKHOLDERS' EQUITY		
Preferred stock, \$0.001 par value- authorized 10,000,000, shares issued and outstanding 328,197 shares in 2016 and 2015 at \$5.00 stated value	1,640,985	1,640,985
Common stock, \$0.0001 par value- authorized 100,000,000, shares issued and outstanding 52,104,081 shares in 2016 and 2015	5,210	5,210
Additional paid in capital	23,229,067	23,208,629
Accumulated deficit	(21,300,568)	(18,686,865)
	<u>3,574,694</u>	<u>6,167,959</u>
	<u>\$ 14,472,527</u>	<u>\$ 17,477,297</u>

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

FLEXSHOPPER, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	For the three months ended March 31,	
	2016	2015
Revenues:		
Lease revenues and fees	\$ 9,920,314	\$ 3,606,325
Lease merchandise sold	273,421	165,508
Total revenues	10,193,735	3,771,833
Costs and expenses:		
Cost of lease revenues, consisting of depreciation and impairment of lease merchandise	5,689,953	2,182,540
Cost of lease merchandise sold	176,900	108,522
Provision for doubtful accounts	2,564,734	822,781
Operating expenses	3,983,052	2,094,276
Total costs and expenses	12,414,639	5,208,119
Operating loss	(2,220,904)	(1,436,286)
Interest expense	392,799	77,921
Loss from continuing operations, before income tax benefits	(2,613,703)	(1,514,207)
Income tax benefit	–	45,784
Loss from continuing operations	(2,613,703)	(1,468,423)
Income from discontinued operations, net of income taxes of \$45,784	–	74,700
Net loss	\$ (2,613,703)	\$ (1,393,723)
Basic and diluted (loss) income per common share:		
Loss from continuing operations	\$ (0.05)	\$ (0.04)
Income from discontinued operations	–	–
Net loss	\$ (0.05)	\$ (0.04)
Weighted average common shares outstanding:		
Basic and diluted	52,104,081	38,604,211

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

FLEXSHOPPER, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the three months ended March 31, 2016
(unaudited)

	<u>Preferred stock</u>		<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Paid in</u> <u>Capital</u>	<u>Deficit</u>	
Balance, January 1, 2016	328,197	\$ 1,640,985	52,104,081	\$ 5,210	\$ 23,208,629	\$ (18,686,865)	\$ 6,167,959
Provision for compensation expense related to issued stock options	-	-	-	-	20,438	-	20,438
Net loss	-	-	-	-	-	(2,613,703)	(2,613,703)
Balance, March 31, 2016	<u>328,197</u>	<u>\$ 1,640,985</u>	<u>52,104,081</u>	<u>\$ 5,210</u>	<u>\$ 23,229,067</u>	<u>\$ (21,300,568)</u>	<u>\$ 3,574,694</u>

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

FLEXSHOPPER, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three months ended March 31,

	(Unaudited) 2016	(Unaudited) 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (2,613,703)	\$ (1,393,723)
Adjustments to reconcile net loss to net cash (used in) operating activities:		
(Income) from discontinued operations	–	(74,700)
Depreciation of lease merchandise	5,250,332	2,234,456
Impairment of lease merchandise	439,621	55,000
Other depreciation and amortization	320,542	154,332
Compensation expense related to issuance of stock options	20,438	13,200
Provision for uncollectible accounts	2,564,734	822,781
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(2,663,790)	(855,888)
(Increase) in prepaid expenses and other	(136,982)	(65,799)
(Increase) in lease merchandise	(4,024,173)	(2,079,986)
Decrease in security deposits	1,350	–
Increase in accounts payable	182,620	161,793
(Decrease) increase in accrued payroll and related taxes	(136,446)	88,618
Increase in accrued expenses	46,551	7,575
Net cash (used in) operating activities - continuing operations	(748,906)	(932,341)
Net cash provided by operating activities - discontinued operations	–	56,506
Net cash (used in) operating activities	(748,906)	(875,835)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment, including capitalized software costs	(403,934)	(222,796)
Net cash (used in) investing activities – continuing operations	(403,934)	(222,796)
Net cash (used in) investing activities	(403,934)	(222,796)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds (repayment) of loans from shareholder	1,000,000	(1,000,000)
Proceeds from loans payable, net of \$1,170,501 of related costs in 2015	750,000	849,062
Repayment of loans payable	(2,351,770)	–
Proceeds from sale of common stock, net of related costs of \$801,806 in 2015	–	8,548,194
Net cash (used in) provided by financing operations – continuing operations	(601,770)	8,397,256
Net cash (used in) provided by financing activities	(601,770)	8,397,256
(DECREASE) INCREASE IN CASH	(1,754,610)	7,298,625
CASH, beginning of period	3,396,206	2,883,349
CASH, end of period	\$ 1,641,596	\$ 10,181,974

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

FLEXSHOPPER, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three months ended March 31,

	<u>(Unaudited)</u> <u>2016</u>	<u>(Unaudited)</u> <u>2015</u>
Supplemental cash flow information:		
Interest paid:	\$ 361,736	\$ 36,250

FLEXSHOPPER, INC.
Notes To Consolidated Financial Statements
For the Three months ended March 31, 2016 and 2015
(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 on 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, 2015.

The consolidated balance sheet as of December 31, 2015 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 (“FlexShopper”), a limited liability company incorporated under the laws of North Carolina on September 24, 2013. Since the sale of the assets of Anchor Funding Services LLC (“Anchor”), which sale was completed in a series of transactions between April and September 2014, the Company is a holding company with no operations except for those conducted by FlexShopper. FlexShopper, through its e-commerce marketplace and patent pending payment method, provides 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 to conduct operations.

During 2013, the Company decided to concentrate its efforts on the operations of FlexShopper and subsequently, an agreement was entered into with a financial institution to sell substantially all of the operating assets of Anchor which provided accounts receivable funding to businesses located throughout the United States. The sale was finalized in June 2014 (see Note 4). The 2015 consolidated statements of operations and cash flows reflects the historical operations of Anchor, including the gain on sale, as discontinued operations

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 accounting principles generally accepted in the United States of America requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition - Merchandise is leased to customers pursuant to lease purchase agreements which provide for weekly lease terms with non-refundable lease payments. Generally, the customer has the right to acquire title either through a 90 day same as cash option, an early purchase option, or through payments of all required lease payments, generally 52 weeks, for ownership. On any current lease, customers have the option to cancel the agreement in accordance with lease terms and return the merchandise. Accordingly, customer agreements are accounted for as operating leases with lease revenues recognized in the month they are due on the accrual basis of accounting. Merchandise sales revenue is recognized when the customer exercises the purchase option and pays the purchase price. Revenue from processing fees earned upon exercise by the customer of the 90-day purchase option is recorded upon recognition of the related merchandise sales. These fees amounted to approximately \$105,000 and \$30,750 for the three months ended March 31, 2016 and 2015, respectively. 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 account or credit card. Accounts receivable are principally comprised of lease payments currently owed to the Company which are past due as the Company has been unable to successfully collect in the manner described above. An allowance for doubtful accounts is estimated by reserving all accounts in excess of four payments in arrears, adjusted for subsequent collections. The accounts receivable balances consisted of the following as of March 31, 2016 and December 31, 2015.

	<u>March 31, 2016</u>	<u>December 31, 2015</u>
Accounts receivable	\$ 7,980,682	\$ 5,479,437
Allowance for doubtful accounts	(7,129,468)	(4,727,278)
Accounts receivable, net	<u>\$ 851,214</u>	<u>\$ 752,159</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. During the three months ended March 31, 2016 and 2015 \$162,544 and \$127,263 of accounts receivable balances were charged off against the allowance 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 \$440,000 and \$55,000 for the three months ended March 31, 2016 and 2015, respectively. The net leased merchandise balances consisted of the following as of March 31, 2016 and December 31, 2015:

	<u>March 31, 2016</u>	<u>December 31, 2015</u>
Lease merchandise at cost	\$ 20,587,882	\$ 19,504,645
Accumulated depreciation and impairment reserve	(11,049,526)	(8,300,509)
Lease merchandise, net	<u>\$ 9,538,356</u>	<u>\$ 11,204,136</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, 2015 (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 for the three months ended March 31, 2016 and 2015 which is included in interest expense, was \$97,542 and \$48,771 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 \$380,356 and \$211,607 for the three months ended March 31, 2016 and 2015, respectively.

Operating Expenses - Operating expenses include all corporate overhead expenses such as salaries, payroll taxes and benefits, stock based compensation, occupancy, marketing and other administrative expenses.

Marketing costs are charged to expense as incurred. Total marketing costs which primarily consist of advertising were approximately \$1,431,000 and \$548,500 and for the three months ended March 31, 2016 and 2015, respectively.

Per Share Data - Per share data is computed by use of the two-class method as a result of outstanding convertible preferred stock which participates in dividends with the common stock and accordingly has participation rights in undistributed earnings as if all such earnings had been distributed during the period (see Note 8). Under such method where the Company has undistributed net income, basic earnings per common share is computed based on the total of any dividends paid per common share plus undistributed income per common share determined by dividing net income reduced by any dividends paid on common and 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 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 preferred stock has no contractual obligation to share in the losses of the Company, common shares issuable upon conversion of the 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 preferred stock as of the beginning of the period) or the two-class method (which assumes that the preferred stock is not converted) plus the potential impact of dilutive 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:

	Three months ended March 31,	
	2016	2015
Convertible preferred stock	2,077,487	2,166,246
Options	4,432,000	3,870,000
Warrants	5,115,531	5,115,531
	<u>11,625,018</u>	<u>11,151,777</u>

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 pricing model to determine the fair value of all stock option awards. (see Note 9)

Fair Value of Financial Instruments – The carrying value of loans payable under the Credit Agreement increased by unamortized issuance costs (see Note 7) approximates fair value.

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 March 31, 2016 and 2015, the Company has not recorded any unrecognized tax benefits.

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

Recent Accounting Pronouncements –

In April 2015, the FASB issued ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This ASU is effective for fiscal years beginning after December 15, 2015 and for interim periods within those fiscal years with early adoption permitted. The Company early adopted ASU 2015-03 during the quarter ended March 31, 2015. In the accompanying balance sheets at March 31, 2016 and December 31, 2015, the Company offset \$985,250 and \$832,792 respectively of unamortized debt issuance costs related to debt issued under the Credit Agreement in March 2015 against the outstanding balance of loans payable under the Credit Agreement.

In April 2015, the FASB issued ASU 2015-05 Intangibles- Goodwill and Other –Internal Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement. The amendments in this Update provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer’s accounting for service contracts. In addition, the guidance in this update supersedes paragraph 350-40-25-16. Consequently, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets. The amendments in this Update which are effective for the annual periods beginning after December 15, 2015, and for interim periods therein, were adopted by the Company in the quarter ended March 31, 2016 and had no effect on the financial statements. .

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory (“ASU 2015-11”) which changes the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable value. ASU 2015-11 defines net realizable value as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The new guidance must be applied on a prospective basis and is effective for periods beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the effect the new guidance will have on its financial statements and related disclosures.

In November 2015, the FASB issued ASU 2015-17, Income Taxes- Balance Sheet Classification of Deferred Taxes to simplify the presentation of deferred income taxes, the amendments in this ASU require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this update apply to all entities that present a classified statement of financial position. The amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods.

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. The Company is currently evaluating the effect that the new guidance will have on its financial statements.

4. DISCONTINUED OPERATIONS

During 2013, the Company decided to concentrate its efforts on the operations of FlexShopper and subsequently on April 30, 2014, Anchor entered into an Asset Purchase and Sale Agreement with a Bank, pursuant to which Anchor sold to the Bank substantially all of its assets (the "Anchor Assets"), consisting primarily of its factoring portfolio. The purchase price for the Anchor Assets included an amount equal to 50% of the factoring fee and interest income earned by the Portfolio Accounts during the 12 month period following acquisition ("Earnout Payments). The Earnout Payments totaled \$206,177 for the year ended December 31, 2015. In the quarter ended March 31, 2015 Anchor recorded a gain of \$74,700 net of an income tax benefit of \$45,784 for the earnout payments received during such period which is included in income from discontinued operations.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	Estimated Useful Lives	March 31, 2016	December 31, 2015
Furniture and fixtures	2-5 years	\$ 86,568	\$ 85,513
Website and internal use software	3 years	2,540,382	2,160,025
Computers and software	3-7 years	573,538	551,015
		<u>3,200,488</u>	<u>2,796,553</u>
Less: accumulated depreciation and amortization		<u>(1,221,232)</u>	<u>(999,000)</u>
		<u>\$ 1,979,256</u>	<u>\$ 1,797,553</u>

Depreciation and amortization expense was \$222,231 and \$104,792 for the three months ended March 31, 2016 and 2015, respectively.

6. LOANS PAYABLE TO SHAREHOLDER

On December 8, 2014, upon approval of the Board of Directors, FlexShopper entered into a promissory note for \$1,000,000, with a shareholder and executive of the Company. The note was payable on demand. The note was funded in increments of \$500,000 on December 8th and 18th and earned interest at 15% per annum. The Promissory Note was to assist FlexShopper in purchasing merchandise for lease and was paid in full with interest amounting to \$36,250 on March 11, 2015. See Note 7 regarding the loan entered into 2016.

7. LOAN PAYABLE

On March 6, 2015, FlexShopper entered into a credit agreement (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, ("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. The borrowing term may be extended for an additional twelve months at 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. Amounts borrowed bear interest at the rate of LIBOR plus 15% per annum and a small non-usage fee is assessed on any undrawn amount if the facility is less than 80% drawn on average in any given measurement period commencing three months after closing of the facility. Interest is payable monthly on the outstanding balance of amounts borrowed and commencing on and after March 6, 2017, principal together with interest thereon, is payable monthly through March 6, 2018, the maturity date of the loan. Interest expense incurred under the Credit Agreement amounted to \$372,382 and \$17,875 for the three months ended March 31, 2016 and 2015, respectively. As of March 31, 2016, the amount funded under the agreement was \$8,017,792.

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.

The Credit Agreement contains 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. Per the fourth amendment to the Credit Agreement described below, the lender waived this violation. The covenant also requires the Company and its subsidiaries maintain an Equity Book Value of at least \$7 million at each of March 31, June 30, September 30 and December 31, 2016 increasing to \$10 million at the end of each quarter from March 31 through December 31, 2017.

On February 11, 2016, FlexShopper entered into a third amendment, (the "Third Amendment") to the Credit Agreement which amended the Credit Agreement to, among other things, add a new financial covenant requiring FlexShopper to maintain at least \$1,500,000 in Unrestricted Cash at all times.

The Third Amendment also includes a consent by the Lender to a \$1,000,000 promissory note (the "Promissory Note") in favor of Marc Malaga, FlexShopper's Executive Vice President of Operations. Interest on the Promissory Note accrues at the rate of 15.0% per annum and all outstanding principal and accrued interest is payable on demand by Mr. Malaga. The Promissory Note which was issued in February 2016, is secured by substantially all of FlexShopper's assets.

On March 29, 2016, FlexShopper entered into a fourth amendment to the Credit Agreement whereby the Lender waived the violation of the Equity Book Value covenant at December 31, 2015, as well as compliance with financial covenants (other than the unrestricted cash covenant) through the earlier of April 1, 2017 or the completion of the raising of at least \$10,000,000 in equity funding (the "Equity Raise"). In addition, the amendment, among other things, provided that FlexShopper maintain Unrestricted Cash of at least \$500,000 on each day and \$1,000,000 at the end of each calendar month.

In consideration of the Fourth Amendment, the Company is required to pay to the administrative agent a bridge fee of \$20,000 per week until (i) the current amount of such bridge fee equals \$400,000 or (ii) the completion of the Equity Raise, whichever event occurs sooner, provided that such bridge fee shall amount to at least \$250,000. As of March 31, 2016, the Company has recorded \$250,000 of deferred debt issuance costs with a corresponding amount of accrued expenses.

8. CAPITAL STRUCTURE

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

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

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

As of December 31, 2014, each share of Series 1 Convertible Preferred Stock was convertible into 5.8 shares of the Company's Common Stock, subject to certain anti-dilution rights. As a result of the Company entering into the Credit Agreement (see Note 6) and the related sale of common stock referred to below, each share of Series 1 Convertible Preferred Stock became convertible into 6.33 shares of the Company's common stock. The holder of the Series 1 Convertible Preferred Stock has the option to convert the shares to Common Stock at any time. Upon conversion all accumulated and unpaid dividends, 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, 2015, 14,022 preferred shares were converted into 88,759 common shares. As of March 31, 2016 there were 328,197 shares of Series 1 Convertible Preferred Stock outstanding which are convertible into 2,077,487 shares of common stock.

Common Stock – The Company, which was authorized to issue 65,000,000 shares of \$.0001 par value Common Stock, after obtaining stockholder approval and filing an amendment to the Company's Certificate of Incorporation with the Secretary of State of the State of Delaware, increased its authorized shares to 100,000,000 in September 2015. 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, FlexShopper raised approximately \$8.6 million in net proceeds through direct sales of 17.0 million shares of FlexShopper common stock, to certain affiliates of the Lender and other accredited investors for a purchase price of \$0.55 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 between a range of no less than one-for-5 and no more than one-for-10 with such ratio to be determined by the sole discretion of the Board of Directors and with the reverse split to be effective at such time and date, if at all, as determined by the Board of Directors in its sole discretion. The consent approving the amendment to our Certificate of Incorporation was approved by stockholders holding approximately 50.3% of our outstanding voting stock.

9. STOCK OPTIONS

On January 31, 2007, the Board of Directors adopted our 2007 Omnibus Equity Compensation Plan (the "2007 Plan"), with 2,100,000 common shares authorized for issuance under the Plan. In October 2009, the Company's stockholders approved an increase in the number of shares covered by the Plan to 4,200,000 shares. On March 26, 2015, the Board adopted our 2015 Omnibus Equity Compensation Plan (the "2015 Plan"), with 4,000,000 common shares authorized for issuance under the 2015 Plan, which was ratified by the Company's stockholders on September 15, 2015. All references to 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 three months ended March 31, 2016 follows:

	Number of shares	Weighted average exercise price	Weighted average contractual term (years)	Aggregate intrinsic value
Outstanding at January 1, 2016	4,067,000	\$ 0.85		
Granted	400,000	\$ 0.57		
Canceled	(35,000)	0.63		
Outstanding at March 31, 2016	4,432,000	\$ 0.83	4.92	\$ 192,050
Vested and exercisable at March 31, 2016	3,693,994	\$ 0.87	4.04	\$ 187,750
Vested and exercisable at March 31, 2016 and expected to vest thereafter	4,375,000	\$ 0.87	4.92	\$ 189,580

The weighted average grant date fair value of options granted during 2016 was \$0.05 per share. The Company measured the fair value of each option award on the date of grant using the Black Scholes option pricing model (BSM) with the following assumptions:

	2016
Exercise price	\$0.60 to \$0.90
Expected life	6 years
Expected volatility	39%
Dividend yield	0%
Risk-free interest rate	1.35% to 2.70%

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 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 \$20,438, and \$13,200, for the three months ended March 31, 2016 and 2015, respectively. Unrecognized compensation cost related to non-vested options at March 31, 2016 amounted to approximately \$180,700 which is expected to be recognized over a weighted average period of 1.8 years.

10. WARRANTS

The following table summarizes information about outstanding stock warrants as of March 31, 2016, all of which are exercisable:

Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life
\$ 1.10	1,342,500	2 years
1.00	2,000,004	4 years
\$ 0.55	1,773,027	5 years
	<u>5,115,531</u>	

11. INCOME TAXES

As of December 31, 2015, the Company had federal net operating loss carryforwards of approximately \$8.4 million and state net operating loss carryforwards of approximately \$5.2 million available to offset future taxable income which expire from 2021 to 2035. The Company's use of net operating loss carryforwards maybe subject to limitations imposed by the Internal Revenue Code. Management believes that the deferred tax assets as of March 31, 2016 do not satisfy the realization criteria and has recorded a valuation allowance to offset the tax asset. By recording a valuation allowance for the entire amount of future tax benefits, the Company has not recognized a deferred tax benefit related to its loss from continuing operations other than a benefit related to utilizing such loss to offset income from discontinued operations in 2015. A corresponding tax provision was charged to discontinued operations.

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, 2015. 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, 2015 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 which provides certain types of durable goods to consumers on a lease-to-own basis and also provides lease-to-own terms to consumers of third party retailers and e-tailers. FlexShopper began generating revenues from this line of business in December 2013. Management believes that the introduction of FlexShopper's Lease-to-own (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-tailers 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) serving as the financial and technology partner for durable goods retailers and e-tailers, (2) selling directly to consumers via the online FlexShopper LTO Marketplace featuring thousands of durable goods and (3) utilizing FlexShopper's patent pending LTO payment method at check out on e-commerce sites.

Summary of Critical Accounting Policies

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to credit provisions, intangible assets, contingencies, 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 – The Company seeks to collect amounts owed under its leases from each customer on a weekly basis by charging their bank account or credit/debit card. Accounts receivable are principally comprised of lease payments currently owed to the Company which are past due as the Company has been unable to successfully collect in the manner described above. As of March 31, 2016, approximately 74% of the Company's leases were current and did not have a past due balance and an additional 12% were past due with balances of one to four payments. An allowance for doubtful accounts is estimated by reserving all accounts in excess of four payments in arrears, adjusted for subsequent collections. The Company is developing historical data to assess the estimate of the allowance in the future. The accounts receivable balances consisted of the following as of March 31, 2016 and December 31, 2015.

	<u>March 31, 2016</u>	<u>December 31, 2015</u>
Accounts receivable	\$ 7,980,682	\$ 5,479,437
Allowance for doubtful accounts	(7,129,468)	(4,727,278)
Accounts receivable, net	<u>\$ 851,214</u>	<u>\$ 752,159</u>

The Company's reserve is 86.3% of the accounts receivable balance as of March 31, 2016. The reserve is a significant percentage of the balance because 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 accrue weekly charges resulting in a significant balance requiring a reserve. The Company charges off accounts once it has exhausted collection efforts and estimates that there is no chance of recovery.

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. FlexShopper 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. When indicators of impairment exist, FlexShopper accelerates depreciation to six months from the lease origination date and records an impairment reserve against the carrying value of the leased merchandise with a corresponding charge to cost of lease revenue for the excess of the depreciation over the applicable agreement period. Principal impairment indicators are leases with more than eight payments past due, or when collection access is denied or problematic, indicating the Company may need to attempt to repossess the items. FlexShopper is developing historical charge off information to assess recoverability and estimate of the impairment reserve.

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

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

Results of Operations

Three Months Ended March 31, 2016, compared to Three Months Ended March 31, 2015

The following table details the operating results from continuing operations for the three months ended March 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>	<u>\$ Change</u>	<u>% Change</u>
Total revenues	\$ 10,193,735	\$ 3,771,833	\$ 6,421,902	170.3
Cost of lease revenue and merchandise sold	5,866,853	2,291,062	3,575,791	156.1
Provision for doubtful accounts	2,564,734	822,781	1,741,953	211.7
Operating expenses	3,983,052	2,094,276	1,888,776	90.2
Operating loss	(2,220,904)	(1,436,286)	(784,618)	(54.6)
Interest expense	392,799	77,921	314,878	404.1
Income tax benefit	-	45,784	45,784	-
Loss from continuing operations	<u>\$ (2,613,703)</u>	<u>\$ (1,468,423)</u>	<u>\$ (1,145,280)</u>	<u>(78.0)</u>

Total lease revenues for the three months ended March 31, 2016 were \$10,193,735 compared to \$3,771,833 for the three months ended March 31, 2015, representing an increase of \$6,421,902 or 170.3%. FlexShopper originated 8,851 leases for the three months ended March 31, 2016 compared to 3,760 leases for the comparable period last year. The Company spent approximately \$882,000 more on marketing in the first quarter of 2016 for a total of \$1,431,000, compared to the first quarter of 2015. Increased marketing expense is primarily responsible for the increase in revenues and leases.

Cost of lease revenue and merchandise sold for the three months ended March 31, 2016 was \$5,866,853 compared to \$2,291,062 for the three months ended March 31, 2015, representing an increase of \$3,575,791 or 156.1%. Cost of lease revenue and merchandise sold for the three months ended March 31, 2016 is comprised of depreciation expense on lease merchandise of \$5,250,332, the net book value of merchandise sold of \$176,900 and a charge for inventory impairment of \$439,621. Cost of lease revenue and merchandise sold for the three months ended March 31, 2015 was comprised of depreciation expense on lease merchandise of \$2,127,540, the net book value of merchandise sold of \$108,522 and a charge for inventory impairment of \$55,000. As the Company's lease revenues increase, the direct costs associated with them also increase.

Provision for bad debts was \$2,564,734 and \$822,781 for the three months ended March 31, 2016 and 2015, respectively. A factor that causes the provision to 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 continued improvement as it continues to refine its underwriting model, enhances its risk department and accumulates additional lease data. During the three months ended March 31, 2016 and 2015, \$162,544 and \$127,263 of accounts receivable balances were charged off against the allowance, respectively, after the Company exhausted all collection efforts with respect to such accounts.

Operating expenses for the three months ended March 31, 2016 and 2015 were \$3,983,052 and \$2,094,276, respectively. Key operating expenses included the following:

	Three months ended March 31, 2016	Three months ended March 31, 2015
Payroll, benefits and contract labor	\$ 1,330,791	\$ 877,059
Legal and professional fees	152,766	91,557
Stock compensation expense	20,438	13,200
Marketing	1,431,052	548,874
Total	\$ 2,935,047	\$ 1,530,690

The increased revenues were offset by the increase in expenses to scale the Company's lease-to-own channels and support its growth resulting in a loss from continuing operations of \$2,613,703 and \$1,468,423 for the three months ended March 31, 2016 and 2015, respectively.

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-tailers	Direct to retailers/e-tailers
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-tailers. 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 March 31, 2016, the Company had cash of \$1,641,596 compared to \$10,181,974 at the same period in 2015.

The Company had accounts receivable of \$7,980,682 offset by an allowance for doubtful accounts of \$7,129,468 resulting in net accounts receivable of \$851,214. Accounts receivable are principally comprised of lease payments owed to the Company. An allowance for doubtful accounts is estimated by reserving all accounts in excess of four payments in arrears adjusted for subsequent collections. Approximately 86% of the Company’s open accounts in the portfolio are not currently subject to allowance.

Recent Financings

In fiscal 2015 and the three months ended March 31, 2016, FlexShopper completed the following transactions, each of which has provided liquidity and cash resources to FlexShopper.

1. On March 6, 2015, FlexShopper entered into a 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”). 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; however, as of the date hereof, there was only approximately \$15,380,000 in additional availability under the Credit Agreement. 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 will receive security interests in certain leases as collateral under the Credit Agreement. In connection with entering into the Credit Agreement, on March 6, 2015, FlexShopper raised approximately \$8.6 million in net proceeds through direct sales of 17.0 million shares of FlexShopper Common Stock to certain affiliates of the Lender and other accredited investors for a purchase price of \$0.55 per share.
2. 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 (the “Promissory Note”).

On March 29, 2016, we entered into a fourth amendment and waiver (the “Fourth Amendment”) to the Credit Agreement. 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 (i) 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 (ii) 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 are not in compliance with the financial covenants under the Credit Agreement by the earlier of April 1, 2017 or the completion of the Equity Raise or 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.

Cash Flow Summary

Cash Flows from Operating Activities

Net cash used by operating activities was \$748,906 for the three months ended March 31, 2016 and was primarily due to the net loss for the period combined with cash used for the purchases of leased merchandise.

Net cash used by operating activities was \$875,835 for the three months ended March 31, 2015 and was primarily due to the net loss for the period combined with cash used for the purchases of leased merchandise.

Cash Flows from Investing Activities

For the three months ended March 31, 2016 net cash used in investing activities was \$403,934, comprised of \$23,577 for the purchase of property and equipment and \$380,357 for capitalized software costs.

For the three months ended March 31, 2015 net cash used in investing activities was \$222,796, comprised of \$11,189 for the purchase of property and equipment and \$211,607 for capitalized software costs.

Cash Flows from Financing Activities

Net cash used by financing activities was \$601,770 for the three months ended March 31, 2016 due to loan repayments on the Credit Agreement of \$2,351,770 offset by funds from the Promissory Note and \$750,000 of funds drawn on the Credit Agreement.

Net cash provided by financing activities was \$8,397,256 for the three months ended March 31, 2015, and was primarily due to proceeds of \$2,019,563 offset by \$1,170,501 of related costs derived upon the Company entering into the Credit Agreement. The Company also raised \$9,350,000 of proceeds from the sale of the Company's stock, offset by payments of \$801,806 in issuance costs and a \$1,000,000 repayment of a note to a shareholder of the Company.

Capital Resources

The funds derived from the sale of FlexShopper's Common Stock and FlexShopper's ability to borrow funds under the Credit Agreement and funds from the sale of Anchor's factoring operations have provided the liquidity and capital resources necessary for FlexShopper to purchase durable goods to supply lease-to-own transactions and to support FlexShopper's current general working capital needs to date. Management believes that the financing transactions described in this section above, including the temporary increase in the Borrowing Base (as defined in the Credit Agreement), provide sufficient liquidity and capital resources to fund our planned marketing program through at least July 31, 2016, or, if we significantly reduce our marketing spend, through December 31, 2016. However, we expect to require additional investment capital to pursue our business plan. To ensure the continued growth and funding of our operations, we expect to continue to explore various possible financing options that may be available to us, which may include a sale of our securities. We have no commitments to obtain any additional funds, and there can be no assurance such funds will be available on acceptable terms or at all. If we need to raise funds and are unable to secure them, we may not be able to:

- remain in operation;
- execute our growth plan;
- take advantage of future opportunities; or
- respond to customers and competition.

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 March 31, 2016.

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. To our knowledge, no governmental authority is contemplating commencing a legal proceeding in which we would be named as a party.

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

During the three months ended March 31, 2016 there were no sales of unregistered equity securities.

During the three months ended March 31, 2016 there were no repurchases of the Company's Common Stock

ITEM 3. DEFAULTS UPON SENIOR SECURITIES:

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES:

Not applicable.

ITEM 5. OTHER INFORMATION:

Not applicable.

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	Designation of Rights Preferences of Series 1 Convertible 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)
3.3	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)
10.1	Amendment No. 4 to the Credit Agreement and Waiver dated March 29, 2016, among FlexShopper 2, LLC and WE-2014-1, LLC (previously filed as Exhibit 10.19 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 and incorporated herein by reference)
31.1	Rule 13a-14(a) Certification – Principal Executive Officer*
31.2	Rule 13a-14(a) Certification – Principal Financial Officer*
32.1	Section 1350 Certification – Principal Executive Officer*
32.2	Section 1350 Certification – Principal Financial Officer*
101.INS	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.

FLEXSHOPPER, INC.

Date: May 16, 2016

By: /s/ Brad Bernstein
Brad Bernstein
President and Principal Executive Officer

Date: May 16, 2016

By: /s/ Russ Heiser
Russ Heiser
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: May 16, 2016

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: May 16, 2016

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

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

In connection with the Quarterly Report of FlexShopper, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2016 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
May 16, 2016

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

In connection with the Quarterly Report of FlexShopper, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2016 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
May 16, 2016