

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2021

or

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

For the transition period from _____ to _____

Commission File Number: 001-37945

FlexShopper

FLEXSHOPPER, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

901 Yamato Road, Ste. 260
Boca Raton, FL

(Address of principal executive offices)

20-5456087

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

33431

(Zip Code)

Registrant's telephone number, including area code: (855) 353-9289

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

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.0001 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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

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

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

Large accelerated filer:
Non-accelerated filer:

Accelerated filer:
Smaller reporting company:
Emerging growth company:

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, as of the last business day of the Registrant's most recently completed second fiscal quarter, was approximately \$40,177,000 (based on the price at which the Registrant's common stock was last sold on June 30, 2021 of \$2.97 per share).

The number of shares outstanding of the Registrant's common stock, as of March 30, 2022, was 21,575,112.

Documents incorporated by reference: The Registrant intends to file a definitive proxy statement pursuant to Regulation 14A under the Securities Exchange Act of 1934 with respect to the 2022 annual meeting of stockholders within 120 days after the end of the fiscal year ended December 31, 2021. Portions of such proxy statement are incorporated by reference into Part III of this Form 10-K.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, that are intended to be covered by the “safe harbor” created by that section. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, can generally be identified by the use of forward-looking terms such as “believe,” “expect,” “may,” “will,” “should,” “could,” “would,” “seek,” “intend,” “plan,” “goal,” “project,” “estimate,” “anticipate” “strategy,” “future,” “likely” or other comparable terms and references to future periods. All statements other than statements of historical facts included in this Annual Report on Form 10-K regarding our strategies, prospects, financial condition, operations, costs, plans and objectives are forward-looking statements. Examples of forward-looking statements include, among others, statements we make regarding the expansion of our lease-to-own program, expectations concerning our joint working arrangements with retailers, investments in and the success of our underwriting technology and risk analytics platform, our ability to collect payments due from customers, expected future operating results, and expectations concerning our business strategy.

Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following:

- our limited operating history, limited cash and net losses attributable to common and series 1 convertible preferred shareholder;
- our ability to obtain adequate financing to fund our business operations in the future;
- the failure to successfully manage and grow our FlexShopper.com e-commerce platform;
- our ability to maintain compliance with financial covenants under our credit agreement;
- our dependence on the success of our third-party retailers and our continued relationships with them;
- our compliance with various federal, state and local laws and regulations, including those related to consumer protection;
- the failure to protect the integrity and security of customer and employee information; and
- the business and financial impact of the COVID-19 pandemic; and
- the other risks and uncertainties described in Risk Factors and Management’s Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report.

Any forward-looking statement made by us in this Annual Report is based only on information currently available to us and speaks only as of the date on which it is made. Except as required by federal securities laws, we undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise.

PART I

Item 1. Business.

Company Overview

We are a financial technology company that enables consumers utilizing our e-commerce marketplace to shop for brand name electronics, home furnishings and other durable goods on a lease-to-own (LTO) basis. We effect these transactions by first approving consumers through our proprietary, risk analytics-powered underwriting model. After receiving a signed consumer lease, we then fund the leased item by purchasing the item from our merchant partner and leasing it to our customer. We then collect payments from consumers under the consumer lease. We hold several registered patents and patent applications on aspects of our LTO system. For the year ended December 31, 2021, we generated approximately \$118 million in net lease revenues and fees and realized approximately \$3 million in net income.

We believe that our LTO programs, which are designed to improve the quality of life of our customers by providing them the ability to obtain ownership of high-quality durable products under an affordable payment arrangement, support broad untapped expansion opportunities for us within the U.S. consumer retail and e-commerce marketplaces. Central to our business model is our LTO Engine, the proprietary technology that we developed and use to automate the online process for consumers to receive payment terms and spending limits and to enter into leases for durable goods, all within minutes. The LTO Engine allows us to operate through three strategic sales channels: (i) selling directly to consumers via our online FlexShopper.com LTO Marketplace featuring thousands of durable goods, (ii) utilizing our LTO payment method at check-out on our merchant partners' e-commerce sites and (iii) facilitating LTO transactions with retailers in their physical locations both through their in-store terminals and FlexShopper applications accessed via the Internet. In 2021, we began a test to market an unsecured, consumer loan product for our bank partner that would augment our LTO solution in retailer sales channels. In 2022, based upon the success of this testing, we expect the marketing of our bank partner's loans to become a strategic solution that we offer to many of our current customers and through our retailer partners.

Our Market Opportunity

The LTO industry offers consumers an alternative to traditional methods of obtaining electronics, computers, home furnishings, appliances and other durable goods. FlexShopper's customers typically do not have sufficient cash or credit to obtain these goods, so they find the short-term nature and affordable payments of LTO attractive.

The Lease-Purchase Transaction

A lease-purchase transaction is a flexible alternative for consumers to obtain brand name merchandise with no long-term obligation. Key features of our lease-purchase transactions include:

Brand name merchandise. FlexShopper offers well-known brands such as LG, Samsung, Sony and Vizio home electronics; Frigidaire, General Electric, LG, Samsung and Whirlpool appliances; Acer, Apple, Asus, Samsung and Toshiba computers and/or tablets; Samsung and Apple smartphones; and Ashley, Powell and Standard furniture, among other brands.

Convenient payment options. Our customers make payments on a weekly or bi-weekly basis. Payments are automatically deducted from the customer's authorized checking account or debit card. Additionally, customers may make additional payments or exercise early payment options, which enable them to save money.

No long-term commitment. A customer may terminate a lease-purchase agreement at any time with no long-term obligation by becoming current on amounts due under the lease-purchase agreement and returning the leased item to FlexShopper.

Applying has no impact on credit or FICO score. We do not use FICO scores to determine customers' spending limits, so our underwriting does not impact consumers' credit with the three main credit bureaus.

Flexible options to obtain ownership. Ownership of the merchandise generally transfers to the customer if the customer makes all payments during the lease term, which is 52 weeks, or exercises early payment options.

Key Trends Driving the Industry

Non-prime consumers represent the largest segment of the credit market. According to Experian research published on June 7, 2021, 30% of Americans are categorized as sub-prime consumers. This segment of consumers represents a significant and underserved market.



We also believe current additional industry trends include:

- Consumers recognizing that they have more convenient options to acquire the products they want.
- The difficult retail climate leading retailers to embrace "save the sale" financing to increase sales with new consumers.
- Technology advances in online underwriting and LTO digital functionality continuing to drive the B2B market segment by making it easier for retailers and consumers to transact on an LTO basis in an efficient and timely manner.

Product Categories



Electronics



Tires



Furniture



Jewelry



Appliances



Mobile

Our Growth and Expansion Strategy

Like many industries, the internet and other technology is transforming the LTO industry. FlexShopper has positioned itself to take advantage of this transformation by focusing on the expansion of the LTO industry online and into mainstream retail and e-tail. Through its strategic sales channels, FlexShopper believes it can expand the LTO industry, also known as the rent-to-own or RTO industry. FlexShopper has developed and is currently processing LTO transactions using its “LTO Engine,” FlexShopper’s proprietary technology that automates the process of consumers receiving spending limits and entering into leases for durable goods all within minutes. The LTO Engine is the basis for FlexShopper’s primary sales channels, which include B2C and B2B channels, illustrated in the diagram below:



We believe we have created a unique platform in which our B2B and B2C sales channels beneficially advance each other. For our B2C channels, we directly market to our consumers LTO opportunities at FlexShopper.com, where they can choose from more than 150,000 of the latest products shipped directly to them by some of the nation’s largest retailers. This generates sales for our retail partners, which encourages them to incorporate our B2B solutions into their online and in-store sales channels. The lease originations by our retail partners using our B2B channels, which have low customer acquisition cost to us, subsidize our B2C customer acquisition costs. Meanwhile, our B2C marketing promotes FlexShopper.com, which provides incremental sales for our retail partners, as well as benefitting our FlexShopper.com business.

To achieve our goal of being the preeminent “pure play” virtual LTO leader, we intend to execute the following strategies:

Continue to grow FlexShopper into a dominant LTO brand. Given strong consumer demand and organic growth potential for our LTO solutions, we believe that significant opportunities exist to expand our presence within current markets via existing marketing channels. As non-prime consumers become increasingly familiar and comfortable with our retail kiosk partnerships, online marketplace and mobile solutions, we plan to capture the new business generated as they migrate away from less convenient legacy brick-and-mortar LTO stores.

Expand the range of customers served. We continue to evaluate new product and market opportunities that fit into our overall strategic objective of delivering next-generation retail, online and mobile LTO terms that span the non-prime/near-prime credit spectrum. For example, we are evaluating products with lower fees that would be more focused on the needs of more creditworthy subprime consumers that prefer a less expensive LTO option. In addition, we are continually focused on improving our analytics to effectively underwrite and serve consumers within those segments of the non-prime credit spectrum that we do not currently reach, including profitable deeper penetration of the sub-prime spectrum. We believe the current generation of our underwriting model is performing well and will continue to improve over time as its data set expands.

Pursue additional strategic retail partnerships. We intend to continue targeting regional and national retailers to expand our B2B sales channels. As illustrated in the diagram above, we believe we have the best omnichannel solution for retailers to “save the sale” with LTO options. In retail, the phrase “save the sale” means offering consumers other finance options when they do not qualify for traditional credit. We expect these partnerships to provide us with access to a broad range of potential new customers, with low customer acquisition costs.

Expand our relationships with existing customers and retail partners. Customer acquisition costs represent one of the most significant expenses for us due to our high percentage of online customers. In comparison, no acquisition cost is incurred for customers acquired through our retail partnerships. We will seek to expand our strong relationships with existing customers by providing qualified customers with increased spending limits or offering other products and services to them, as well as seek to grow our retail partnerships to reduce our overall acquisition cost.

Continue to optimize marketing across all channels. Since we began marketing our services to consumers in 2014, we have made significant progress in targeting our customers and lowering our customer acquisition costs. Our efforts have been across different media including direct response television and digital channels such as social media, email and search engines.

Competition and our Competitive Strengths

The LTO industry is highly competitive. Our operation competes with other national, regional and local LTO businesses, as well as with rental stores that do not offer their customers a purchase option. Some of these companies have, or may develop, systems that enable consumers to obtain through online facilities spending limits and payment terms and to enter into leases, in a manner similar to that provided by FlexShopper’s proprietary technology. We believe the following competitive strengths differentiate us:

Underwriting and Risk Management

Specialized technology and proprietary risk analytics optimized for the online non-prime credit market. We have made substantial investments in our underwriting technology and analytics platforms to support rapid scaling, innovation and regulatory compliance. Our team of data scientists and risk analysts uses our risk infrastructure to build and test strategies across the entire underwriting process, using alternative credit data, device authentication, identity verification and many more data elements. We believe our real-time proprietary technology and risk analytics platform is better than those of our competitors in underwriting online consumers and consumer electronics. Most of our peers focus on in-store consumers that acquire furniture and appliances, which we believe are easier to underwrite based on our own experience. Additionally, all of our applications are processed instantly with approvals and spending limits provided within seconds of submission.

LTO Products for Consumers and Retailers

Expansive online LTO marketplace. We have made substantial investments in our custom e-commerce platform to provide consumers the greatest selection of popular brands delivered by many of the nation’s largest retailers, including Best Buy, Amazon, Walmart, Overstock and Serta and many more. Our platform is custom-built for online LTO transactions, which include underwriting our consumers, serving them LTO leases, syncing and communicating with our retail partners to fulfill orders and all front- and back-end customer relationship management functions, including collections and billing. The result is a comprehensive technology platform that manages all facets of our business and enables us to scale with hundreds of thousands of visitors and products.

Omnichannel “save the sale” product for retailers. In retail, the phrase “save the sale” means offering consumers other finance options when they do not qualify for traditional credit. We believe that we have the best omnichannel solution for retailers to “save the sale” with LTO options. We believe no competitor has a LTO marketplace that provides retailers incremental sales with no acquisition cost. Additionally, compared to our peers, our product for consumers requires no money down and typically fewer application fields. We believe this leads to more in-store and online sales.

Providing LTO consumers an “endless aisle” of products for lease-to-own. As illustrated by our B2C channels in the diagram above, we offer consumers three ways to acquire products on an LTO basis. At FlexShopper.com, our customers can choose from more than 150,000 of the latest products shipped by certain of the nation’s largest retailers. If customers want products that are not available on our marketplace, they may use our “personal shopper” service and simply complete a form with a link to the webpage of the desired durable good. We will then facilitate their purchase by providing an LTO arrangement. We also offer consumers the ability to acquire durable goods with our FlexShopper Wallet smartphone application available on Apple and Android devices. With FlexShopper Wallet, consumers may apply for a spending limit and take a picture of a qualifying item in any major retail store and we will fill the order for them. With our B2C channels, we believe we are providing LTO consumers with a superior LTO experience and fulfilling our mission to help improve their quality of life by shopping for what they want and where they want.

Lean and Scalable Model

Compared to the brick-and-mortar LTO industry, which is suffering from the same challenges as traditional retail stores including declining sales, we have been successful in addressing the LTO consumer through online channels as illustrated in the diagram above of our B2C and B2B sales channels.

We believe our model is more efficient and scalable for the following reasons:

We have no inventory risk and are completely drop-ship. We do not have any of the costs associated with buying, storing and shipping inventory. Instead, our suppliers ship goods directly to consumers.

We serve LTO consumers across the United States without brick-and-mortar stores. We do not have any of the costs associated with physical stores or the personnel needed to operate them.

We achieve more operating leverage as our sales grow. Our model is primarily driven by a technology platform that does not require significant increases in operating overhead to support sales growth.

Sales and Marketing

B2C Channels

We use a multi-channel, analytics-powered approach to marketing our products and services, with both broad-reach and highly targeted channels, including television, digital, telemarketing and marketing affiliates. The goal of our marketing is to promote our brand and primarily to directly acquire new customers at a targeted acquisition cost. Our marketing strategies include the following:

Direct response television advertising. We use television advertising supported by our internal analytics and media buys from a key agency to drive and optimize website traffic and lease originations.

Digital acquisition. Our online marketing efforts include pay-per-click, keyword advertising, search engine optimization, marketing affiliate partnerships, social media programs and mobile advertising integrated with our operating systems and technology from vendors that allow us to optimize customer acquisition tactics within the daily operations cycle.

User experience and conversion. We measure and monitor website visitor usage metrics and regularly test website design strategies to improve customer experience and conversion rates.

B2B Channels

We use internal business development personnel and outside consultants that focus on engaging retailers and e-tailers to use our services. This includes promoting FlexShopper at key trade shows and conferences.

Information Systems

We use computer-based management information systems to facilitate our entire business model, including underwriting, processing transactions through our sales channels, managing collections and monitoring leased inventory. In addition, we have a customer service and call center to facilitate inbound and outbound calls. Through the use of our proprietary software developed in-house, each of our retail partners uses our online merchant portal that automates the process of consumers receiving spending limits and entering into leases for durable goods allwithin minutes. The management information system generates reports that enable us to meet our financial reporting requirements.

Government Regulations

The LTO industry is regulated by and subject to the requirements of various federal, state and local laws and regulations, many of which are in place for consumer protection. In general, such laws regulate, among other items, applications for leases, late fees, finance rates, disclosure statements, the substance and sequence of required disclosures, the content of advertising materials and certain collection procedures. Violations of certain provisions of these laws and regulations may result in penalties ranging from nominal amounts up to and including forfeiture of fees and other amounts due on leases. We are unable to predict the nature or effect on our operations or earnings of unknown future legislation, regulations and judicial decisions or future interpretations of existing and future legislation or regulations relating to our operations, and there can be no assurance that future laws, decisions or interpretations will not have a material adverse effect on our operations and earnings.

Our business is subject to laws relating to the collection, use, retention, security and transfer of personally identifiable information about our customers.

Currently, nearly every state and the District of Columbia specifically regulate LTO transactions. At the present time, no federal law specifically regulates the LTO industry, although federal legislation to regulate the industry has been proposed from time to time. Most of the states that regulate LTO transactions have enacted disclosure laws that require LTO companies to disclose to their customers the total number of payments, the total amount and timing of all payments to acquire ownership of any item, any other charges that may be imposed and miscellaneous other items. In addition, certain restrictive state lease purchase laws limit the total amount that a customer may be charged for an item, or regulate the “cost-of-rental” amount that LTO companies may charge on LTO transactions, generally defining “cost-of-rental” as lease fees paid in excess of the “retail” price of the goods. There has been increased legislative attention in the United States, at both the federal and state levels, on consumer debt transactions in general, which may result in an increase in legislative regulatory efforts directed at the LTO industry.

See “Risk Factors” below for more information with respect to governmental laws and regulations and their effect on our business.

Intellectual Property

FlexShopper has been granted U.S. Patent Nos. 10,089,682, 10,282,778 and 10,891,687 (see page 13 for additional disclosures) by the U.S. Patent and Trademark Office (the “USPTO”) since 2018. These patents are for a range of systems, including one that enables e-commerce servers to complete LTO transactions through their e-commerce websites and one that enables retailer devices to complete LTO transactions through their retailer web pages, as well as systems that further enable consumer devices to modify received retailer web pages to indicate LTO payments in association with transaction-eligible products as part of LTO transactions through the retailer web pages. FlexShopper may file additional patent applications in the future. We can provide no assurance that FlexShopper will be granted any additional patents by the USPTO. We believe certain proprietary information, including our underwriting model, and our patented and patent-pending systems are central to our business model and we believe they give us a key competitive advantage. We also rely on trademark and copyright law, trade secret protection, and confidentiality, license and work product agreements with our employees, customers, and others to protect our proprietary rights. See “Risk Factors” below for more information on and risks associated with respect to our intellectual property.

Human Capital

In order to innovate, compete and succeed in our highly competitive market, it is crucial that we continue to attract and retain experienced employees. As part of these efforts, we strive to offer competitive compensation and benefits program. In addition to their base salary, we also offer employees a wide array of benefits such as life and health (medical, dental and vision) insurance, paid time off and retirement benefits. We also provide free emotional well-being services as part of our employee assistance program.

As of December 31, 2021, we had 137 full-time employees, including 80 individuals in our corporate office and 57 individuals in operations center. As of that date, none of our employees were governed by collective bargaining agreements or were members of a union. We foster an environment that is sustainably safe, respectful, fair and inclusive of everyone and promotes diversity, equity and inclusion inside and outside of our business. We consider our relations with our employees to be very good.

Corporate Organization and Information

FlexShopper was incorporated under the laws of the State of Delaware in 2006. FlexShopper is a holding corporation that conducts its lease-to-own business through its wholly-owned subsidiary, FlexShopper, LLC, a limited liability company organized under the laws of North Carolina in 2013 and conducts its lending business through its wholly-owned subsidiary, FlexLending, LLC, a limited liability company organized under the laws of Delaware in 2019. FlexShopper, LLC wholly owns, directly or indirectly, two Delaware subsidiaries, FlexShopper 1, LLC and FlexShopper 2, LLC.

Our executive offices are located at 901 Yamato Road, Suite 260, Boca Raton, Florida 33431, and our telephone number is (855) 353-9289. We maintain a corporate website at <https://www.flexshopper.com>. Our Annual Report, quarterly reports on Form 10-Q, current reports on Form 8-K, including exhibits, and amendments to those reports filed or furnished pursuant to Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, are available free of charge on our website, as soon as reasonably practicable after they have been filed with or furnished to the U.S. Securities and Exchange Commission (“SEC”). Our SEC reports and other filings can be accessed through the investors section of our website, or through <https://www.sec.gov>. Information on our website does not constitute part of this Annual Report or any other report we file or furnish with the SEC.

Investors and others should note that we use social media to communicate with our customers, retailer network and the public about our company, our services, new product developments and other matters. Any information that we consider to be material to an investor’s evaluation of our company will be included in filings accessible through the SEC website and may also be disseminated using our investor relations website (<https://flexshopper.com>) and press releases. However, we encourage investors, the media and others interested in our company to also review our social media channels @flexshopper on Twitter and FlexShopper on Facebook. The information contained in these social media channels is not part of, and is not incorporated into or included in, this Annual Report.

Item 1A. Risk Factors.

You should carefully consider the following risk factors, in addition to the other information presented in this Form 10-K, in evaluating us and our business. Any of the following risks, as well as other risks and uncertainties, could harm our business and financial results and cause the value of our securities to decline.

Risks Related to Our Business, Operations and Technology

Our business liquidity and capital resources are dependent upon our Credit Agreement with an institutional lender and our compliance with the terms of that agreement. FlexShopper, through FlexShopper 2, LLC (the “Borrower”), is party to a credit agreement (as amended, the “Credit Agreement”) with Wells Fargo Bank, National Association, various lenders from time to time party thereto and WE2014-1, LLC (the “Lender”). Under the terms of the Credit Agreement, subject to the satisfaction of certain conditions, the Borrower may borrow up to \$57,500,000 from the Lender, based on the Borrower’s cash on hand and Amortized Order Value of its Eligible Leases (as such terms are defined in the Credit Agreement). The Commitment Termination Date of the Credit Agreement is April 1, 2024. The Lender was granted a security interest in certain leases as collateral under the Credit Agreement and the interest rate charged on amounts borrowed was set at LIBOR plus 11% per annum. As of March 30, 2022, there was \$965,995 in additional availability under the Credit Agreement and the outstanding balance under the Credit Agreement was \$56,500,000.

Failure to effectively manage our costs could have a material adverse effect on our profitability. Certain elements of our cost structure are largely fixed in nature while consumer spending remains uncertain, which makes it challenging for us to maintain or increase our operating income. The competitiveness in our industry and increasing price transparency mean that the need to achieve efficient operations is greater than ever. As a result, we must continuously focus on managing our cost structure. Failure to manage our labor and benefit rates, advertising and marketing expenses, operating leases, charge-offs or indirect spending could materially adversely affect our profitability.

Our LTO business depends on the success of our third-party retail partners and our continued relationships with them. Our revenues depend in part on the relationships we have with third-party retailers we work with to offer our LTO services. We have entered into a variety of such arrangements and expect to seek additional such relationships in the future. If our retail partners do not satisfy their obligations to us, we are unable to meet our retail partners' expectations and demands or we are unable to reach agreements with additional suitable retail partners, we may fail to meet our business objectives. The terms of any additional retail partnerships or other strategic arrangements that we establish may not be favorable to us. Our inability to successfully implement retail partnerships and strategic arrangements could adversely affect our business, financial condition and results of operations. In addition, in most cases, our agreements with such third-party retailers may be terminated at the retailer's election. There can be no assurance that we will be able to continue our relationships with our retail partners on the same or more favorable terms in future periods or that these relationships will continue beyond the terms of our existing contracts with our retail partners. The failure of our third-party retail partners to maintain quality and consistency in their operations and their ability to continue to provide products and services, or the loss of the relationship with any of these third-party retailers and an inability to replace them, could cause our business to lose customers, substantially decreasing our revenues and earnings growth.

Our customer base presents significant risk of default for non-payment. We bear the risk of non-payment or late payments by our customers. The nature of our customer base makes it sensitive to adverse economic conditions and, in the event of an economic downturn, less likely to meet our prevailing underwriting standards, which may be more restrictive in an adverse economic environment. As a result, during such periods we may experience decreases in the growth of new customers, and we may curtail spending limits to existing customers, which may adversely affect our net revenue and potential profitability.

Our growth will depend on our ability to develop our brands, and these efforts may be costly. Our ability to develop the FlexShopper brand will be critical to achieving widespread acceptance of our services and will require a continued focus on active marketing efforts. We will need to continue to spend substantial amounts of money on, and devote substantial resources to, advertising, marketing, and other efforts to create and maintain brand loyalty among our customers. If we fail to promote and maintain our brand, or if we incur substantial expenses in an unsuccessful attempt to do so, our business would be harmed.

Our LTO business depends on the continued growth of online and mobile commerce. The business of selling goods over the internet and mobile networks is dynamic and relatively new. Concerns about fraud, privacy and other problems or lack of access may discourage additional consumers from adopting the internet or mobile devices as modes of commerce or may prompt consumers to offline channels. In order to expand our user base, we must appeal to and acquire consumers who historically have used traditional means of commerce to purchase goods and may prefer internet analogues to such traditional retail means, such as the retailer's own website, to our offerings. If these consumers prove to be less active than we expect due to lower levels of willingness or ability to use the internet or mobile devices for commerce for any reason, including lack of access to high-speed communications equipment, traffic congestion on the internet or mobile network outages or delays, disruptions or other damage to users' computers or mobile devices, and we are unable to gain efficiencies in our operating costs, including our cost of acquiring new users, our business could be adversely impacted.

Failure to successfully manage and grow our FlexShopper.com e-commerce platform could materially adversely affect our business and prospects. Our FlexShopper.com e-commerce platform provides customers the ability to apply, shop, review our product offerings and prices and enter into lease agreements as well as make payments on existing leases from the comfort of their homes and on their mobile devices. Our e-commerce platform is a significant and essential component of our strategic plan and we believe will drive future growth of our business. In order to promote our products and services and allow customers to transact online and reach new customers, we must effectively maintain, improve and grow our e-commerce platform. There can be no assurance that we will be able to maintain, improve or grow our e-commerce platform in a profitable manner.

The success of our business is dependent on factors affecting consumer spending that are not under our control. Consumer spending is affected by general economic conditions and other factors including levels of employment, disposable consumer income, prevailing interest rates, consumer debt and availability of credit, inflation, recession and fears of recession, tax rates and rate increases, timing of receipt of tax refunds, consumer confidence in future economic conditions and political conditions, and consumer perceptions of personal well-being and security. Unfavorable changes in factors affecting discretionary spending could reduce demand for our products and services, such as consumer electronics and residential furniture, resulting in lower revenue and negatively impacting our business and its financial results.

Our customers can return merchandise without penalty. When our customers acquire merchandise through the FlexShopper LTO program, we purchase the merchandise from the retailer and enter the lease-to-own relationship with the customer. Because our customers can return merchandise without penalty, there is risk that we may end up owning a significant amount of merchandise that is difficult to monetize. While we have factored customer returns into our business model, customer return volume may exceed the levels we expect, which could adversely impact our collections, revenues and our financial performance. Returns totalled less than 3% of leased merchandise for the year ended December 31, 2021.

We rely on third-party credit/debit card and ACH (automated clearing house) processors to process collections from customers on a weekly basis. Our ability to collect from customers could be impaired if these processors do not work with us. These third-party payment processors may consider our business a high risk since our customer base has a high incidence of insufficient funds and rejected payments. This could cause a processor to discontinue its services to us, and we may not be able to find a replacement processor. If this occurs, we would have to collect from our customers using less efficient methods, which would adversely impact our collections, revenues and our financial performance.

We rely on internal models to manage risk, to provide accounting estimates and to make other business decisions. Our results could be adversely affected if those models do not provide reliable estimates or predictions of future activity. The accurate modeling of risks is critical to our business, particularly with respect to managing underwriting and spending limits for our customers. Our expectations regarding customer repayment levels, as well as our allowances for doubtful accounts and other accounting estimates, are based in large part on internal modeling. We also rely heavily on internal models in making a variety of other decisions crucial to the successful operation of our business. It is therefore important that our models are accurate, and any failure in this regard could have a material adverse effect on our results. However, models are inherently imperfect predictors of actual results because they are based on historical data available to us and our assumptions about factors such as demand, payment rates, default rates, delinquency rates and other factors that may overstate or understate future experience. Our models could produce unreliable results for a number of reasons, including the limitations or lack of historical data to predict results, invalid or incorrect underlying assumptions or data, the need for manual adjustments in response to rapid changes in economic conditions, incorrect coding of the models or inappropriate application of a model to products or events outside of the model's intended use. In particular, models are less dependable when the economic environment is outside of historical experience, as has been the case recently. Due to the factors described above, resulting unanticipated and excessive default and charge-off experience can adversely affect our profitability and financial condition, breach covenants in our Credit Agreement, limit our ability to secure a future credit facility and adversely affect our ability to finance our business.

In deciding whether to provide a spending limit to customers, we rely on the accuracy and completeness of information furnished to us by or on behalf of our customers. If we and our systems are unable to detect any misrepresentations in this information, this could have a material adverse effect on our results of operations and financial condition. In deciding whether to provide a customer with a spending amount, we rely heavily on information furnished to us by or on behalf of our customers and our ability to validate such information through third-party services, including personal financial information. If a significant percentage of our customers intentionally or negligently misrepresent any of this information, and we or our systems do not or did not detect such misrepresentations, it could have a material adverse effect on our ability to effectively manage our risk, which could have a material adverse effect on our results of operations and financial condition.

We have substantial investment in the creditworthiness and financial condition of our customers. One of the largest current assets on our balance sheet is the accounts receivable balance from our customers. Deterioration in the financial condition of a significant component of our customer base could hinder our ability to collect amounts due from our customers. Potential causes of such declines include national or local economic downturns, inflation, pandemics, reduction in government subsidies and consumer confidence declines.

If we fail to timely contact delinquent customers, then the number of delinquent customer receivables eventually being charged off could increase. We contact customers with delinquent account balances soon after the account becomes delinquent. During periods of increased delinquencies, it is important that we are proactive in dealing with these customers rather than simply allowing customer receivables to go to charge-off. During periods of increased delinquencies, it becomes extremely important that we are properly staffed and trained to assist customers in bringing the delinquent balance current and ultimately avoiding charge-off. If we do not properly staff and train our collections personnel, or if we incur any downtime or other issues with our information systems that assist us with our collection efforts, then the number of accounts in a delinquent status or charged-off could increase. In addition, managing a substantially higher volume of delinquent customer receivables typically increases our operational costs. A rise in delinquencies or charge-offs could have a material adverse effect on our business, financial condition, liquidity and results of operations.

Our operations are regulated by and subject to the requirements of various Federal and state laws and regulations. These laws and regulations, which may be amended or supplemented or interpreted by courts from time to time, could expose us to significant compliance costs or burdens or force us to change our business practices in a manner that may be materially adverse to our operations, prospects or financial condition. Currently, nearly every state and the District of Columbia specifically regulate LTO transactions. At the present time, no federal law specifically regulates the LTO industry, although federal legislation to regulate the industry has been proposed from time to time. Any adverse changes in existing laws, or the passage of new adverse legislation by states or the Federal government could materially increase both our costs of complying with laws and the risk that we could be sued or be subject to government sanctions if we are not in compliance. In addition, new burdensome legislation might force us to change our business model and might reduce the economic potential of our sales and lease ownership operations. Most of the states that regulate LTO transactions have enacted disclosure laws that require LTO companies to disclose to their customers the total number of payments, the total amount and timing of all payments to acquire ownership of any item, any other charges that may be imposed and miscellaneous other items. In addition, certain restrictive state lease purchase laws limit the total amount that a customer may be charged for an item or regulate the “cost-of-rental” amount that LTO companies may charge on LTO transactions, generally defining “cost-of-rental” as lease fees paid in excess of the “retail” price of the goods. There has been increased legislative attention in the United States, at both the Federal and state levels, on consumer debt transactions in general, which may result in an increase in legislative regulatory efforts directed at the LTO industry. We cannot guarantee that the Federal government or states will not enact additional or different legislation that would be disadvantageous or otherwise materially adverse to us. In addition to the risk of lawsuits related to the laws that regulate LTO transactions, we could be subject to lawsuits alleging violations of Federal and/or state laws and regulations relating to consumer tort law, including fraud, consumer protection, information security and privacy. A large judgment against us could adversely affect our financial condition and results of operations. Moreover, an adverse outcome from a lawsuit, even one against one of our competitors, could result in changes in the way we and others in the industry do business, possibly leading to significant costs or decreased revenues or profitability.

Our virtual LTO business differs in some potentially significant respects from the risks of a typical LTO brick-and-mortar store business, which implies certain additional regulatory risks. We offer LTO products directly to consumers through our e-commerce marketplace and through the stores and e-commerce sites of third-party retailers. This novel business model implicates certain regulatory risk including, among others:

- possibly different regulatory risks than applicable to traditional brick-and-mortar LTO stores, whether arising from the offer by third-party retailers of FlexShopper's B2B solutions alongside traditional cash, check or credit payment options or otherwise, including the risk that regulators may mistakenly treat virtual LTO transactions as some other type of transaction that would face different and more burdensome and complex regulations;
- reliance on automatic bank account drafts for lease payments, which may become disfavored as a payment method for these transactions by regulators;
- potential that regulators may target the virtual LTO transaction and/or adopt new regulations or legislation (or existing laws and regulations may be interpreted in a manner) that negatively impact FlexShopper's ability to offer virtual LTO programs through third-party retail partners;
- potential that regulators may attempt to force the application of laws and regulations on FlexShopper's virtual LTO business in inconsistent and unpredictable ways that could increase the compliance-related costs incurred by FlexShopper, and negatively impact FlexShopper's financial and operational performance; and
- indemnification obligations to FlexShopper retail partners and their service providers for losses stemming from FlexShopper's failure to perform with respect to its products and services.

Any of these risks could have a material adverse effect on FlexShopper's business.

Changes in regulations or customer concerns, in particular as they relate to privacy and protection of customer data, could adversely affect our business. Our business is subject to laws relating to the collection, use, retention, security and transfer of personally identifiable information about our customers. The interpretation and application of privacy and customer data protection laws are in a state of flux and may vary from jurisdiction to jurisdiction. These laws may be interpreted and applied inconsistently, and our current data protection policies and practices may not be consistent with those interpretations and applications. Complying with these varying requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business. Any failure, or perceived failure, by us to comply with our own privacy policies or with any regulatory requirements or orders or other privacy or consumer protection related laws and regulations could result in proceedings or actions against us by governmental entities or others, subject us to significant penalties and negative publicity and adversely affect our operating results.

The transactions offered to consumers by our businesses may be negatively characterized by consumer advocacy groups, the media and certain Federal, state and local government officials, and if those negative characterizations become increasingly accepted by consumers and/or FlexShopper's retail partners, demand for our goods and the transactions we offer could decrease and our business could be materially adversely affected. Certain consumer advocacy groups, media reports and federal and state legislators have asserted that laws and regulations should be broader and more restrictive regarding LTO transactions. The consumer advocacy groups and media reports generally focus on the total cost to a consumer to acquire an item, which is often alleged to be higher than the interest typically charged by banks or similar lending institutions to consumers with better credit histories. This "cost-of-rental" amount, which is generally defined as lease fees paid in excess of the "retail" price of the goods, is from time to time characterized by consumer advocacy groups and media reports as predatory or abusive without discussing benefits associated with LTO programs or the lack of viable alternatives for our customers' needs. If the negative characterization of these types of LTO transactions becomes increasingly accepted by consumers or FlexShopper's retail and merchant partners, demand for our products and services could significantly decrease, which could have a material adverse effect on our business, results of operations and financial condition. Additionally, if the negative characterization of these types of transactions is accepted by legislators and regulators, we could become subject to more restrictive laws and regulations, which could have a material adverse effect on our business, results of operations and financial condition. The vast expansion and reach of technology, including social media platforms, has increased the risk that our reputation could be significantly impacted by these negative characterizations in a relatively short amount of time. If we are unable to quickly and effectively respond to such characterizations, we may experience declines in customer loyalty and traffic and our relationships with our retail partners may suffer, which could have a material adverse effect on our business, results of operations and financial condition.

The loss of any of our key personnel could harm our business. Our future financial performance will depend to a significant extent on our ability to motivate and retain key management personnel. Competition for qualified management personnel is intense, and there can be no assurance that we will be able to hire additional qualified management on terms satisfactory to us. Further, in the event we experience turnover in our senior management positions, we cannot assure you that we will be able to recruit suitable replacements. We must also successfully integrate all new management and other key positions within our organization to achieve our operating objectives. Even if we are successful, turnover in key management positions may temporarily harm our financial performance and results of operations until new management becomes familiar with our business. At present, we do not maintain key-man life insurance on any of our executive officers. Although we have entered employment contracts with Richard House, Jr., our Chief Executive Officer and H. Russell Heiser, Jr., our Chief Financial Officer, we cannot guarantee that they will be available. Our Board of Directors is responsible for approval of all future employment contracts with our executive officers. We can provide no assurances that said future employment contracts and/or their current compensation is or will be on commercially reasonable terms to us in order to retain our key personnel. The loss of any of our key personnel could harm our business.

We depend on hiring an adequate number of hourly employees to run our business and are subject to government regulations concerning these and our other employees, including wage and hour regulations. Our workforce has a significant portion of employees who work on an hourly basis. To grow our operations and meet the needs and expectations of our customers, we must attract, train, and retain a large number of hourly associates, while at the same time controlling labor costs. These positions have historically had high turnover rates, which can lead to increased training, retention and other costs. In certain areas where we operate, there is significant competition for employees, including from retailers and the restaurant industries. The lack of availability of an adequate number of hourly employees, or our inability to attract and retain them, or an increase in wages and benefits to current employees could adversely affect our business, results of operations, cash flows and financial condition. We are subject to applicable rules and regulations relating to our relationship with our employees, including wage and hour regulations, health benefits, unemployment and payroll taxes, overtime and working conditions and immigration status. Accordingly, federal, state or local legislated increases in the minimum wage, as well as increases in additional labor cost components such as employee benefit costs, workers' compensation insurance rates, compliance costs and fines, would increase our labor costs, which could have a material adverse effect on our business, prospects, results of operations and financial condition.

Employee misconduct or misconduct by third parties acting on our behalf could harm us by subjecting us to monetary loss, significant legal liability, regulatory scrutiny and reputational harm. Our reputation is critical to maintaining and developing relationships with our existing and potential customers and third parties with whom we do business. There is a risk that our employees or the employees of a third-party retailer with whom we partner could engage in misconduct that adversely affects our reputation and business. For example, if an employee or a third party associated with our business were to engage in, or be accused of engaging in, illegal or suspicious activities including fraud or theft of our customers' information, we could suffer direct losses from the activity and, in addition, we could be subject to regulatory sanctions and suffer serious harm to our reputation, financial condition, customer relationships and ability to attract future customers. Employee or third-party misconduct could prompt regulators to allege or to determine based upon such misconduct that we have not established adequate supervisory systems and procedures to inform employees of applicable rules or to detect violations of such rules. The precautions that we take to detect and prevent misconduct may not be effective in all cases. Misconduct by our employees or third-party contractors, or even unsubstantiated allegations of misconduct, could result in a material adverse effect on our reputation and our business. Our operations are subject to certain laws generally prohibiting companies and their intermediaries from making improper payments to government officials for the purpose of obtaining or retaining business, such as the U.S. Foreign Corrupt Practices Act, and similar anti-bribery laws in other jurisdictions. Our employees, contractors or agents may violate the policies and procedures we have implemented to ensure compliance with these laws. Any such improper actions could subject us to civil or criminal investigations, could lead to substantial civil and criminal, monetary and non-monetary penalties, and related shareholder lawsuits, could cause us to incur significant legal fees, and could damage our reputation.

Competition in the LTO business is intense. The LTO industry is highly competitive. Our operation competes with other national, regional and local LTO businesses, as well as with rental stores that do not offer their customers a purchase option. Some of these companies have, or may develop, systems that enable consumers to obtain through online facilities spending limits and payment terms and to enter into leases in a manner similar to that provided by our proprietary technology. Greater financial resources may allow our competitors to grow faster than us, including through acquisitions. This in turn may enable them to enter new markets before we can, which may decrease our opportunities in those markets. Greater name recognition, or better public perception of a competitor's reputation, may help them divert market share away from us, even in our established markets. Some competitors may be willing to offer competing products on an unprofitable basis in an effort to gain market share, which could compel us to match their pricing strategy or lose business. With respect to customers desiring to purchase merchandise for cash or on credit, we also compete with retail stores. Competition is based primarily on store location, product selection and availability, customer service and lease rates and terms. We believe we do not currently have significant competition for our online LTO marketplace and patent pending LTO payment method. However, such competition is likely to develop over time, and we may be unable to successfully compete in our target markets. We can provide no assurances that we will be able to successfully compete in the LTO industry.

Continuation or worsening of current economic conditions faced by a portion of our customer base could result in decreased revenues. The geographic concentration of our retail partners may magnify the impact of conditions in a particular region, including economic downturns and other occurrences. Although we believe an economic downturn can result in increased business in the LTO market as consumers increasingly find it difficult to purchase home furnishings, electronics and appliances from traditional retailers on store installment credit, it is possible that if the conditions continue for a significant period, or get worse, consumers may curtail spending on all or some of the types of merchandise we offer, in which event our revenues may suffer.

Much of our customer base continues to experience prolonged economic uncertainty and, in certain areas, unfavorable economic conditions. We believe that the extended duration of that economic uncertainty and unfavorable economic conditions may be resulting in our customers curtailing purchases of the types of merchandise we offer, or entering into agreements that generate smaller amounts of revenue for us (i.e., a 90-day same-as-cash option), resulting in decreased revenues for us. Any increases in unemployment or underemployment within our customer base may result in increased defaults on lease payments, resulting in increased merchandise return costs and merchandise losses. In addition, our retail partners as well as our online customer base are subject to the effects of adverse acts of nature, such as winter storms, hurricanes, hail storms, strong winds, earthquakes and tornadoes, which have in the past caused damage such as flooding and other damage to our retail partners and online customers.

We are subject to sales, income and other taxes, which can be difficult and complex to calculate due to the nature of our business. A failure to correctly calculate and pay such taxes could result in substantial tax liabilities and a material adverse effect on our results of operations. The application of indirect taxes, such as sales tax, is a complex and evolving issue, particularly with respect to the LTO industry generally and our virtual LTO business more specifically. Many of the fundamental statutes and regulations that impose these taxes were established before the growth of the LTO industry and e-commerce and, therefore, in many cases it is not clear how existing statutes apply to our various businesses. In addition, governments are increasingly looking for ways to increase revenues, which has resulted in discussions about tax reform and other legislative action to increase tax revenues, including through indirect taxes. This also could result in other adverse changes in or interpretations of existing sales, income and other tax regulations. For example, from time to time, some taxing authorities in the United States have notified us that they believe we owe them certain taxes imposed on transactions with our customers. Although these notifications have not resulted in material tax liabilities to date, there is a risk that one or more jurisdictions may be successful in the future, which could have a material adverse effect on our results of operations.

System interruption and the lack of integration and redundancy in our order entry and online systems may adversely affect our net sales. Customer access to our customer service center and websites is key to the continued flow of new orders. Anything that would hamper or interrupt such access could adversely affect our net sales, operating results and customer satisfaction. Examples of risks that could affect access include problems with the internet or telecommunication infrastructure, limited web access by our customers, local or more systemic impairment of computer systems due to viruses or malware, or impaired access due to breaches of internet security or denial of service attacks. Changes in the policies of service providers or others that increase the cost of telephone or internet access could inhibit our ability to market our products or transact orders with customers. In addition, our ability to operate our business from day-to-day largely depends on the efficient operation of our computer hardware and software systems and communications systems. Our computer and communications systems and operations could be damaged or interrupted by fire, flood, power loss, telecommunications failure, earthquakes, acts of war or terrorism, acts of God, computer viruses, physical or electronic break-ins or denial of service attacks, improper operation by employees and similar events or disruptions. Any of these events could cause system interruption, delays and loss of critical data and could prevent us from accepting and fulfilling customer orders and providing services, which would impair our operations. Certain of our systems are not redundant, and we have not fully implemented a disaster recovery plan. In addition, we may have inadequate insurance coverage to compensate us for any related losses. Interruptions to customer ordering, particularly if prolonged, could damage our reputation and be expensive to remedy and have significant adverse effects on our financial results.

We face risks related to the strength of our operational, technological and organizational infrastructure. We are exposed to operational risks that can be manifested in many ways, such as errors related to failed or inadequate processes, faulty or disabled computer systems, fraud by employees, contractors or third parties and exposure to external events. In addition, we are heavily dependent on the strength and capability of our technology systems that we use to manage our internal financial, credit and other systems, interface with our customers and develop and implement effective marketing campaigns. Our ability to operate our business to meet the needs of our existing customers and attract new ones and to run our business in compliance with applicable laws and regulations depends on the functionality of our operational and technology systems. Any disruptions or failures of our operational and technology systems, including those associated with improvements or modifications to such systems, could cause us to be unable to market and manage our products and services and to report our financial results in a timely and accurate manner, all of which could have a negative impact on our results of operations. In some cases, we outsource delivery, maintenance and development of our operational and technological functionality to third parties. These third parties may experience errors or disruptions that could adversely impact us and over which we may have limited control. Any increase in the amount of our infrastructure that we outsource to third parties may increase our exposure to these risks.

If we do not respond to technological changes, our services could become obsolete, and we could lose customers. To remain competitive, we must continue to enhance and improve the functionality and features of our e-commerce websites and other technologies. We may face material delays in introducing new products and enhancements. If this happens, our customers may forego the use of our websites and use those of our competitors. The internet and the online commerce industry are rapidly changing. If competitors introduce new products and services using new technologies or if new industry standards and practices emerge, our existing websites and our proprietary technology and systems may become obsolete. Our failure to respond to technological change or to adequately maintain, upgrade and develop our computer network and the systems used to process customers' orders and payments could harm our business, prospects, financial condition and results of operations.

We may not be able to adequately protect our intellectual property rights or may be accused of infringing intellectual property rights of third parties. We have been granted a patent for our system that enables e-commerce servers to complete LTO transactions through their e-commerce websites and for additional systems that enable retailer devices to complete LTO transactions through their retailer web pages, as well as systems that further enable consumer devices to modify received retailer web pages to indicate LTO payments in association with transaction-eligible products as part of LTO transactions through the retailer web pages. However, we can provide no assurances that we will be granted any additional patents by the USPTO. We believe certain proprietary information, including but not limited to our underwriting model, and patented and patent-pending systems are central to our business model, and we believe give us a key competitive advantage. We rely on trademark and copyright law, trade secret protection, and confidentiality, license and work product agreements with our employees, customers and others to protect our proprietary rights. We may be unable to prevent third parties from acquiring trademarks, service marks and domain names that are similar to, infringe upon, or diminish the value of our trademarks and other proprietary rights. Failure to protect our domain names could affect adversely our reputation and brand and make it more difficult for users to find our website. We may be unable to discover or determine the extent of any unauthorized use of our proprietary rights. The protection of our intellectual property may require the expenditure of significant financial and managerial resources. In addition, the steps we take to protect our intellectual property may not adequately protect our rights or prevent parties from infringing or misappropriating our proprietary rights. We can be at risk that others will independently develop or acquire equivalent or superior technology or other intellectual property rights. The use of our technology or similar technology by others could reduce or eliminate any competitive advantage we have developed, cause us to lose sales or otherwise harm our business. We cannot be certain that the intellectual property used in our business does not and will not infringe the intellectual property rights of others, and we are from time to time subject to third party infringement claims. Due to changes in patent law, we face the risk of a temporary increase in patent litigation due to new restrictions on including unrelated defendants in patent infringement lawsuits in the future particularly from entities that own patents but that do not make products or services covered by the patents. Any third-party infringement claims against us, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, injunctions against us or the payment of damages. Moreover, should we be found liable for infringement, we may be required to seek to enter into licensing agreements, which may not be available on acceptable terms or at all.

Product safety and quality control issues, including product recalls, could harm our reputation, divert resources, reduce sales and increase costs. The products we lease are subject to regulation by the U.S. Consumer Product Safety Commission and similar state regulatory authorities. Such products could be subject to recalls and other actions by these authorities. Product safety or quality concerns may require us to voluntarily remove selected products from our e-commerce site, or from our customers' homes. Such recalls and voluntary removal of products can result in, among other things, lost sales, diverted resources, potential harm to our reputation and increased customer service costs, which could have a material adverse effect on our financial condition. In addition, given the terms of our lease agreements with our customers, in the event of such a product quality or safety issue, our customers who have leased the defective merchandise from us could terminate their lease agreements for that merchandise and/or not renew those lease arrangements, which could have a material adverse effect on our financial condition if we are unable to recover those losses from the vendor who supplied us with the defective merchandise.

Our management information systems may not be adequate to meet our evolving business and emerging regulatory needs and the failure to successfully implement them could negatively impact the business and its financial results. We are investing significant capital in new information technology systems to support our growth plan. These investments include redundancies and acquiring new systems and hardware with updated functionality. We are taking appropriate actions to ensure the successful implementation of these initiatives, including the testing of new systems, with minimal disruptions to the business. These efforts may take longer and may require greater financial and other resources than anticipated, may cause distraction of key personnel, may cause disruptions to our systems and our business, and may not provide the anticipated benefits. The disruption in our information technology systems, or our inability to improve, integrate or expand our systems to meet our evolving business and emerging regulatory requirements, could impair our ability to achieve critical strategic initiatives and could adversely impact our sales, collections efforts, cash flows and financial condition.

If we do not maintain the privacy and security of customer, retail partner, employee or other confidential information, due to cybersecurity-related "hacking" attacks, intrusions into our systems by unauthorized parties or otherwise, we could incur significant costs, litigation, regulatory enforcement actions and damage to our reputation, any one of which could have a material adverse impact on our business, operating results and financial condition. Our business involves the collection, processing, transmission and storage of customers' personal and confidential information, including dates of birth, banking information, credit and debit card information, data we receive from consumer reporting companies, including credit report information, as well as confidential information about our retail partners and employees, among others. Much of this data constitutes confidential personally identifiable information ("PII") which, if unlawfully accessed, either through a "hacking" attack or otherwise, could subject us to significant liabilities as further discussed below. Companies like us that possess significant amounts of PII and/or other confidential information have experienced a significant increase in cyber security risks in recent years from increasingly aggressive and sophisticated cyberattacks, including hacking, computer viruses, malicious or destructive code, ransomware, social engineering attacks (including phishing and impersonation), denial-of-service attacks and other attacks and similar disruptions from the unauthorized use of or access to information technology ("IT") systems. Our IT systems are subject to constant attempts to gain unauthorized access in order to disrupt our business operations and capture, destroy or manipulate various types of information that we rely on, including PII and/or other confidential information. In addition, various third parties, including employees, contractors or others with whom we do business may attempt to circumvent our security measures in order to obtain such information, or inadvertently cause a breach involving such information. Any significant compromise or breach of our data security, whether external or internal, or misuse of PII and/or other confidential information may result in significant costs, litigation and regulatory enforcement actions and, therefore, may have a material adverse impact on our business, operating results and financial condition. Further, if any such compromise, breach or misuse is not detected quickly, the effect could be compounded. While we have implemented network security systems and processes to protect against unauthorized access to or use of secured data and to prevent data loss and theft, there is no guarantee that these procedures are adequate to safeguard against all data security breaches or misuse of the data. We maintain private liability insurance intended to help mitigate the financial risks of such incidents, but there can be no guarantee that insurance will be sufficient to cover all losses related to such incidents, and our exposure resulting from any serious unauthorized access to, or use of, secured data, or serious data loss or theft, could far exceed the limits of our insurance coverage for such events. Further, a significant compromise of PII and/or other confidential information could result in regulatory penalties and harm our reputation with our customers, retail partners and others, potentially resulting in a material adverse impact on our business, operating results and financial condition. The regulatory environment related to information security, data collection and use, and privacy is increasingly rigorous, with new and constantly changing requirements applicable to our business, and compliance with those requirements could result in additional costs. We also believe successful data breaches or cybersecurity incidents at other companies, whether or not we are involved, could lead to a general loss of customer confidence that could negatively affect us, including harming the market perception of the effectiveness of our security measures or financial technology in general. We believe our exposure to this risk will increase as we expand our use of financial technology to communicate with our customers and retail partners and as we increase the number of retail partners with whom we work.

If we fail to maintain adequate systems and processes to detect and prevent fraudulent activity, our business could be adversely impacted. Criminals are using increasingly sophisticated methods to engage in illegal activities such as paper instrument counterfeiting, fraudulent payment or refund schemes and identity theft. As we make more of our services available over the internet and other media, we subject ourselves to consumer fraud risk. We use a variety of tools to protect against fraud; however, these tools may not always be successful.

Our failure to maintain an effective system of internal controls could result in inaccurate reporting of financial results and harm our business. We are required to comply with a variety of reporting, accounting and other rules and regulations. As a public reporting company subject to the rules and regulations established from time to time by the SEC and the Nasdaq Capital Market, we are required to, among other things, establish and periodically evaluate procedures with respect to our disclosure controls and procedures. In addition, as a public company, we are required to document and test our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 so that our management can certify, on an annual basis, that our internal control over financial reporting is effective. As such, we maintain a system of internal control over financial reporting, but there are limitations inherent in internal control systems. A control system can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints and the benefit of controls must be appropriate relative to their costs. Furthermore, compliance with existing requirements is expensive and we may need to implement additional finance and accounting and other systems, procedures and controls to satisfy our reporting requirements. If our internal control over financial reporting is determined to be ineffective, such failure could cause investors to lose confidence in our reported financial information, negatively affect the market price of our common stock, subject us to regulatory investigations and penalties, and adversely impact our business and financial condition.

Risks Relating to our Stock

Because of their significant stock ownership and ability to select a nominee to our Board of Directors, certain beneficial owners of our stock, as well as our executive officers and directors, will be able to exert control over the Company and significant corporate decisions. B2 FIE V LLC (“B2 FIE”), a holder of series 2 convertible preferred stock and a seat on our Board, beneficially owns 21.1% of the voting power of our outstanding stock as of March 30, 2022. Our secured lender beneficially owns 5.9% of the voting power of our outstanding stock as of March 30, 2022. Also, our executive officers and other directors beneficially own an additional 25.2% of the voting power of our outstanding stock as of the same date. In the event that they act in concert on future stockholder matters, such persons may have the ability to affect the election of all of our directors and the outcome of all issues submitted to our stockholders. Such concentration of ownership could limit the price that certain investors might be willing to pay in the future for shares of common stock and could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, control of us. Additionally, pursuant to the Investor Rights Agreement entered into in connection with its investment in the Company, B2 FIE currently has the right to designate one nominee on our Board of Directors. As a result, the presence of directors on our Board of Directors nominated by these investors enables such investors to influence and impact future actions taken by our Board of Directors.

The price of our common stock has fluctuated significantly and is likely to continue to do so. During the fiscal year ended December 31, 2021, the closing price for our common stock on the Nasdaq Capital Market ranged from \$2.16 to \$3.84 per share. The market price for our common stock can fluctuate as a result of a variety of factors, including the factors listed in this Risk Factors section, many of which are beyond our control. These factors include: actual or anticipated variations in quarterly operating results; announcements of new services by our competitors or us; announcements relating to strategic relationships or acquisitions; dilution caused by additional equity issuances; our ability to meet market expectations with respect to the growth and profitability of each of our operating segments; quarterly variations in our competitors’ results of operations; state or federal legislative or regulatory proposals, initiatives, actions or changes that are, or are perceived to be, adverse to our operations; changes in financial estimates or other statements by securities analysts; and other changes in general economic conditions. Because of this, we may fail to meet or exceed the expectations of our stockholders or others, and the market price for our common stock could fluctuate as a result. In addition, the securities markets have from time-to-time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

We have never declared or paid cash dividends on our common stock, and we do not anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain future earnings, if any, to fund the development and growth of our business. Any future determination to pay cash dividends will be dependent upon our financial condition, operating results, capital requirements, applicable contractual restrictions and other such factors as our Board of Directors may deem relevant. We are additionally restricted under our Credit Agreement from declaring or making any dividends in cash or stock, subject to certain limited permitted dividend payments assuming we have positive net income and there is no existing default or event of default thereunder.

Increased costs associated with corporate governance compliance may significantly impact our results of operations. Changing laws, regulations and standards relating to corporate governance, public disclosure and compliance practices, including the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the Sarbanes-Oxley Act of 2002, and new SEC regulations, may create difficulties for companies such as ours in understanding and complying with these laws and regulations. As a result of these difficulties and other factors, devoting the necessary resources to comply with evolving corporate governance and public disclosure standards has resulted in and may in the future result in increased general and administrative expenses and a diversion of management time and attention to compliance activities. We also expect these developments to increase our legal compliance and financial reporting costs. In addition, these developments may make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. Moreover, we may be unable to comply with these new laws and regulations on a timely basis. These developments could make it more difficult for us to retain qualified members of our Board of Directors, or qualified executive officers. We are presently evaluating and monitoring regulatory developments and cannot estimate the timing or magnitude of additional costs we may incur as a result. To the extent these costs are significant, our general and administrative expenses are likely to increase.

If we sell shares of our common stock or securities convertible into our common stock in future financings, the ownership interest of existing shareholders will be diluted and, as a result, our stock price may go down. We may from time to time issue additional shares of common stock, possibly at a discount from the current trading price of our common stock, or securities convertible into our common stock. As a result, our existing shareholders will experience immediate dilution upon the purchase of any shares of our Common Stock sold at a discount. If we issue common stock or securities convertible into common stock, our shareholders will experience dilution and this dilution will be greater if we find it necessary to sell securities at a discount to prevailing market prices.

Our certificate of incorporation allows for our Board of Directors to create new series of preferred stock without further approval by our stockholders, which could adversely affect the rights of the holders of our common stock. Our Board of Directors has the authority to fix and determine the relative rights and preferences of preferred stock and to issue up to 500,000 shares of our preferred stock (of which 250,000 shares have been designated as series 1 convertible preferred stock and 25,000 shares have been designated as series 2 convertible preferred stock) without further stockholder approval. As a result, our Board of Directors could authorize the issuance of additional series of preferred stock that would grant to holders the preferred right to our assets upon liquidation, the right to receive dividend payments before dividends are distributed to the holders of common stock and the right to the redemption of the shares, together with a premium, prior to the redemption of our common stock. In addition, our Board of Directors could authorize the issuance of additional series of preferred stock that has greater voting power than our common stock or that is convertible into our common stock, which could decrease the relative voting power of our common stock or result in dilution to our existing stockholders. Although we have no present intention to issue any additional shares of preferred stock or to create any additional series of preferred stock, we may decide to issue such shares in the future.

Item 1B. Unresolved Staff Comments.

None

Item 2. Properties.

Our principal executive office is located in Boca Raton, Florida, where we currently lease 21,622 square feet of office space to accommodate our business and employees. The monthly rent for this space is approximately \$31,500 with annual 3% increases throughout the lease term on the anniversary of the commencement date throughout the initial 108-month term. Our lease extends through June 30, 2028.

We had a lease for storefront space in West Palm Beach, Florida to accommodate our repossession retail sales operation. The monthly base rent including operating expenses was approximately \$2,000 throughout December 30, 2021. In March 2021, FlexShopper and the lessor agreed on the early termination of the lease for this property.

In September 2021, FlexShopper entered into a 12-month lease for an office space for approximately 18 people at the Battery at SunTrust Park at Georgia, Atlanta mainly to expand the sales team. The monthly rent for this space is approximately \$6,900 per month.

Item 3. Legal Proceedings.

There are no material pending legal proceedings against our company. We may, however, be subject to various claims and legal actions arising in the ordinary course of business from time to time.

For further information, see Note 11 in the accompanying Consolidated Financial Statements.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is traded on The Nasdaq Capital Market under the symbol "FPAY."

Holders of Record

As of March 30, 2022, there were 116 holders of record of our common stock.

Dividend Policy

We have not paid or declared any cash dividends on our common stock. We currently intend to retain any earnings for future growth and, therefore, do not expect to pay cash dividends on our common stock in the foreseeable future. Any future determination to pay dividends will be at the discretion of our Board of Directors and will depend upon various factors, including our results of operations, financial condition, capital requirements, investment opportunities and other factors that our Board of Directors deems relevant. Our Credit Agreement restricts our ability to declare or make, or agree to pay or make, directly or indirectly, any dividends in cash or stock, or incur any obligation to do so, subject to certain limited permitted dividend payments assuming we have positive net income and there is no existing default or event of default thereunder.

Our series 2 convertible preferred stock accrues dividends on its \$1,000 stated value at an annual rate of 10% compounded annually. Cumulative accrued dividends on our series 2 convertible preferred stock, as of December 31, 2021, totaled \$13,271,172 (see Note 7 of Notes to Consolidated Financial Statements).

Item 6. Reserved

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our consolidated financial statements and the notes thereto appearing elsewhere in this Form 10-K. All references to our business operations refer to FlexShopper, LLC and its wholly-owned subsidiaries, unless the context indicates otherwise.

Overview

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

In 2021, we began a test to market an unsecured, consumer loan product for our bank partner that would augment our LTO solution in retailer sales channels. In 2022, based upon the success of this testing, we expect the marketing of our bank partner’s loans to become a strategic solution that we offer to many of our current customers and through our retailer partners.

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 aforementioned manner and therefore the Company has an in-house and near-shore team to collect on the past due amounts FlexShopper maintains an allowance for doubtful accounts, under which FlexShopper’s policy is to record an allowance for estimated uncollectible charges, primarily based on historical collection experience that considers both the aging of the lease and the origination channel. Other qualitative factors are considered in estimating the allowance, such as seasonality, underwriting changes and other business trends. We believe our allowance is adequate to absorb all expected losses. The accounts receivable balances consisted of the following as of December 31, 2021 and December 31, 2020:

	December 31, 2021	December 31, 2020
Accounts receivable	\$ 57,602,269	\$ 32,171,255
Allowance for doubtful accounts	(27,703,278)	(22,138,541)
Accounts receivable, net	<u>\$ 29,898,991</u>	<u>\$ 10,032,714</u>

The allowance for doubtful accounts 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 all collection efforts are exhausted. During the years ended December 31, 2021 and 2020, \$34,924,803 and \$19,769,114 of accounts receivable balances, respectively, were charged off against the allowance.

	December 31, 2021	December 31, 2020
Beginning balance	\$ 22,138,541	\$ 9,976,941
Provision	40,489,540	31,930,714
Accounts written off	(34,924,803)	(19,769,114)
Ending balance	<u>\$ 27,703,278</u>	<u>\$ 22,138,541</u>

Lease Merchandise - Until all payment obligations for ownership are satisfied under the lease agreement, the Company maintains ownership of the lease merchandise. Lease merchandise consists primarily of residential furniture, consumer electronics, computers, appliances and household accessories and is recorded at cost net of accumulated depreciation. The Company depreciates leased merchandise using the straight-line method over the applicable agreement period for a consumer to acquire ownership, generally twelve months with no salvage value. Upon transfer of ownership of merchandise to customers resulting from satisfaction of their lease obligations, the related cost and accumulated depreciation are eliminated from lease merchandise. For lease merchandise returned or anticipated to be returned either voluntarily or through repossession, the Company provides an impairment reserve for the undepreciated balance of the merchandise net of any estimated salvage value with a corresponding charge to cost of lease revenue. The cost, accumulated depreciation and impairment reserve related to such merchandise are written off upon determination that no salvage value is obtainable.

The net leased merchandise balances consisted of the following as of December 31, 2021 and December 31, 2020:

	December 31, 2021	December 31, 2020
Lease merchandise at cost	\$ 72,159,063	\$ 64,335,971
Accumulated depreciation	(29,505,431)	(19,162,357)
Impairment reserve	(1,711,520)	(2,351,274)
Lease merchandise, net	<u>\$ 40,942,112</u>	<u>\$ 42,822,340</u>

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

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 recognized 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 years ended December 31, 2021 and 2020 are as follows:

Gross Profit	2021	2020	\$ Change	% Change
Gross lease billings and fees	\$ 158,844,724	\$ 128,870,481	\$ 29,974,243	23.3
Lease merchandise sold	7,071,572	5,144,747	1,926,825	37.5
Gross billings	165,916,296	134,015,228	31,901,068	23.8
Provision for doubtful accounts	(40,489,540)	(31,930,714)	(8,558,826)	26.8
Net revenues	125,426,756	102,084,514	23,342,242	22.9
Cost of lease revenues, consisting of depreciation and impairment of lease merchandise	(73,616,293)	(63,308,210)	(10,308,083)	16.3
Cost of merchandise sold	(5,561,593)	(3,424,880)	(2,136,713)	62.4
Gross profit	\$ 46,248,870	\$ 35,351,424	\$ 10,897,446	30.8
Gross profit margin	37%	35%		

Adjusted EBITDA	2021	2020	\$ Change	% Change
Net income/ (loss)	\$ 3,272,774	\$ (339,896)	\$ 3,612,670	1,062.9
Provision for income taxes	785,310	663,050	122,260	18.4
Amortization of debt costs	220,816	305,797	(84,981)	(27.8)
Other amortization and depreciation	2,875,902	2,271,287	604,615	26.6
Interest expense	5,017,744	3,996,764	1,020,980	25.5
Stock compensation	1,125,819	981,261	144,558	14.7
Product/ infrastructure expense	10,000	299,287	(289,287)	(96.7)
Warrants compensation- consulting agreement	-	139,480	(139,480)	-
Gain on debt extinguishment	(1,931,825)	-	(1,931,825)	-
Executive separation agreement	-	396,090	(396,090)	-
Adjusted EBITDA	\$ 11,376,540	\$ 8,713,120	\$ 2,663,420	30.6

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

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

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

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

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

Results of Operations

The following table details operating results for the twelve months ended December 31, 2021 and 2020:

	2021	2020	\$ Change	% Change
Gross lease billings and fees	\$ 158,844,724	\$ 128,870,481	\$ 29,974,243	23.3
Provision for doubtful accounts	(40,489,540)	(31,930,714)	(8,558,826)	26.8
Net lease billing and fees	118,355,184	96,939,767	21,415,417	22.1
Lease merchandise sold	7,071,572	5,144,747	1,926,825	37.5
Total revenues	125,426,756	102,084,514	23,342,242	22.9
Cost of lease revenue and merchandise sold	(79,177,886)	(66,733,090)	(12,444,796)	18.6
Marketing	(9,129,062)	(5,880,063)	(3,248,999)	55.3
Salaries and benefits	(11,489,208)	(10,440,693)	(1,048,515)	10.0
Other operating expenses	(18,265,781)	(14,404,953)	(3,860,828)	26.8
Operating income	7,364,819	4,625,715	2,739,104	59.2
Gain on extinguishment of debt	1,931,825	-	1,931,825	-
Interest expense including amortization of debt issuance costs	(5,238,560)	(4,302,561)	(935,999)	21.8
Provision for incomes taxes	(785,310)	(663,050)	(122,260)	18.4
Net income/ (loss)	<u>\$ 3,272,774</u>	<u>\$ (339,896)</u>	<u>\$ 3,612,670</u>	<u>1,062.9</u>

FlexShopper originated 159,217 gross leases less same day modifications and cancellations with an average origination value per lease of \$524 for the twelve months ended December 31, 2021 compared to 188,468 gross leases less same day modifications and cancellations with an average origination value of \$468 per lease for the comparable period last year. Total lease revenues for the twelve months ended December 30, 2021 were \$118,355,184 compared to \$96,939,767 for the twelve months ended December 31, 2020, representing an increase of \$21,415,417 or 22.1%. In 2020, government stimulus programs had a significant impact on our customers. Despite originating a greater number of gross leases and gross lease dollars in 2020, the unprecedented amount of government stimulus in 2020 resulted in a larger portion of our customer base paying off leases early thereby reducing lease revenue. In 2021, as a result of enhancements to our website and marketing programs, the Company has been increasing the average origination value per lease. Coupled with the return to pre-stimulus early payoff behavior, 2021 resulted in greater lease revenue compared to 2020. The provision for doubtful accounts relative to gross lease billings and fees are similar for both years at approximately 25%.

Cost of lease revenue and merchandise sold for the twelve months ended December 31, 2021 was \$79,177,886 compared to \$66,733,090 for the twelve months ended December 31, 2020, representing an increase of \$12,444,796 or 18.6%. Cost of lease revenue and merchandise sold for the twelve months ended December 31, 2021 is comprised of depreciation expense and impairment of lease merchandise of \$73,616,293 and the net book value of merchandise sold of \$5,561,593. Cost of lease revenue and merchandise sold for the twelve months ended December 31, 2020 is comprised of depreciation expense and impairment of lease merchandise of \$63,308,210 and the net book value of merchandise sold of \$3,424,880. As the Company's lease portfolio and revenues increase, the depreciation and related costs associated with the larger portfolio also increase. The mix of early paid off leases and returned merchandise will alter the average depreciable term of the leases within the portfolio and result in increases or decreases in cost of lease revenue and merchandise sold relative to lease revenue.

Marketing expenses in the twelve months ended December 31, 2021 were \$9,129,062 compared to \$5,880,063 in the twelve months ended December 31, 2020, an increase of \$3,248,999 or 55.3%. The Company strategically increased marketing expenditures, which are primarily related to increasing new lease consumers to grow the lease portfolio. The primary source of new consumers is through digital marketing channels directing potential consumers to FlexShopper.com. The focus on digital marketing allows the Company to have enhanced reporting on the effectiveness of marketing spending to ensure that it is acquiring customers at its targeted acquisition cost. A smaller portion of marketing expense is related to commissions related to retail partnerships as well as remarketing efforts to drive repeat consumer activity.

Salaries and benefits in the twelve months ended December 30, 2021 were \$11,489,208 compared to \$10,440,693 in the twelve months ended December 30, 2020, an increase of \$1,048,515 or 10.0%. Generally, the salary and benefits expense should directionally move with the change in lease originations and the overall size of the lease portfolio albeit at a slower rate. During the second quarter of 2021, there were some management positions filled in operational roles to increase efficiencies in the call center and other operational departments. The company also expanded its sales team to support the growth with the retail partners.

Other operating expenses for the years ended December 30, 2021 and 2020 included the following:

	2021	2020
Amortization and depreciation	\$ 2,875,902	\$ 2,271,287
Computer and internet expenses	3,329,532	1,849,641
Legal and professional fees	3,221,667	1,932,287
Merchant bank fees	2,472,489	1,879,978
Customer verification expenses	1,991,111	2,791,114
Stock compensation expense	1,125,819	981,261
Telephone and office expenses	918,374	462,740
Rent expense	670,951	680,153
Insurance expense	542,620	488,257
Other	1,117,316	1,068,235
Total	\$ 18,265,781	\$ 14,404,953

Computer and internet expenses in the twelve months ended December 31, 2021 were \$3,329,532 compared to \$1,849,641 in the twelve months ended December 30, 2020, representing an increase of \$1,479,891 or 80.0%. A significant portion of computer and internet expense is related to scaling both the consumer facing website and the Company's back-end billing and collection systems. As the lease portfolio grows, the back-office systems will need to scale also but at a much lower rate. In the last two quarters of 2021, there were some additional costs related to the creation and optimization of new operational processes.

Legal and professional fees expenses in the twelve months ended December 31, 2021 were \$3,221,667 compared to \$1,932,287 in the twelve months ended December 31, 2020, representing an increase of \$1,289,380 or 66.7%. During the second quarter of 2021, the Company onboarded two off-shore servicing and collections options to improve flexibility around seasonal call center traffic and improve operational metrics. Also, the expense recorded for warrants granted as part of the consulting agreement with XLR8 Capital Partner increased in the twelve month period ended December 31, 2021 as the weighted average valuation per warrant was \$1.63 in the twelve months ended December 31, 2021 compared to \$0.85 per warrant for the same period in 2020.

Merchant bank fees expenses in the twelve months ended December 31, 2021 were \$2,472,489 compared to \$1,879,978 in the twelve months ended December 31, 2020, representing an increase of \$592,511 or 31.5%. Merchant bank fee expense represents the ACH and card processing fees related to billing consumers and therefore an increase in revenue is the main driver for the increase in merchant bank fees.

Customer verification expenses in the twelve months ended December 31, 2021 were \$1,991,111 compared to \$2,791,114 in the twelve months ended December 31, 2020, representing a decrease of \$800,003 or 28.7%. Customer verification expense is primarily the cost of data used for underwriting new lease applicants. The number of new lease applicants for which customer verification checks are run and expenses incurred, is directly correlated with changes in marketing expense. During the third quarter of 2021, several changes remarked by the implementation of a more discipline process around data procurement and storage, were made by the Company. Those improvements triggered a change in the estimate of the probability to provide future economic benefit of some data cost. As a result of this change in the estimate regarding the portion of data costs incurred that are not directly used in underwriting decisions and that are probable of providing future economic benefit, the Company capitalized \$884,160 of data costs in the year ended December 31, 2021. Also, the reduction in the volume of leases for the year ended December 31, 2021 contributed to the decrease of customer verification expenses. The underwriting and data science team continues to optimize the costs related to underwriting lease applications.

Telephone and office expenses in the twelve months ended December 31, 2021 were \$918,374 compared to \$462,740 in the twelve months ended December 30, 2020, representing an increase of \$455,634 or 98.5%. The improvement to operations includes a revamping of our telephone system which increased the volume of outbound calls and created more efficiencies in handling inbound calls.

Operations

We promote our FlexShopper products and services across all sales channels through strategic partnerships, direct response marketing, and affiliate and internet marketing, all of which are designed to increase our lease transactions and name recognition. Our advertisements emphasize such features as instant spending limits, and affordable weekly payments. We believe that as the FlexShopper name gains familiarity and national recognition through our advertising efforts, we will continue to educate our customers and potential customers about the LTO 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 multichannel, analytics-powered marketing strategy that includes the following:

Online LTO Marketplace	Patented 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 Direct response television campaigns Direct mail	Partnerships with payment aggregators Consultants & strategic relationships	Consultants & strategic relationships

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 “Liquidity and Capital Resources” below.

Liquidity and Capital Resources

As of December 31, 2021, the Company had cash of \$5,094,642 compared to \$8,541,232 as of December 31, 2020.

As of December 31, 2021, the Company had accounts receivables of \$57,602,269 net of an allowance for doubtful accounts of \$27,703,278 totaling \$29,898,991. Accounts receivables are principally comprised of lease payments owed to the Company. An allowance for doubtful accounts is estimated based upon historical collection and delinquency percentages.

Credit Agreement

On March 6, 2015, FlexShopper, through a wholly-owned subsidiary (the “Borrower”), entered into a credit agreement (as amended from time to time and including the Fee Letter (as defined therein), the “Credit Agreement”) with Wells Fargo Bank, National Association as paying agent, various lenders from time to time party thereto and WE 2014-1, LLC, an affiliate of Waterfall Asset Management, LLC, as administrative agent and lender (the “Lender”). The Borrower is permitted to borrow funds under the Credit Agreement based on FlexShopper’s recently collected payments and the Amortized Order Value of its Eligible Leases (as such terms are defined in the Credit Agreement) less certain deductions described in the Credit Agreement. Under the terms of the Credit Agreement, subject to the satisfaction of certain conditions, the Borrower may currently borrow up to \$57,500,000 from the Lender until the Commitment Termination Date and must repay all borrowed amounts one year thereafter, on the date that is 12 months following the Commitment Termination Date (unless such amounts become due or payable on an earlier date pursuant to the terms of the Credit Agreement). On January 29, 2021, pursuant to an amendment to the Credit Agreement, the Commitment Termination Date was extended to April 1, 2024, the Lender was granted a security interest in certain leases as collateral under the Credit Agreement and the interest rate charged on amounts borrowed was set at LIBOR plus 11% per annum.

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

In addition, the Lender and its affiliates have a right of first refusal on certain FlexShopper transactions involving leases or other financial products. 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 the Borrower in the Credit Agreement and related documents (including certain financial and expense covenants), deficiencies in the borrowing base, certain judgments against the Borrower and bankruptcy events.

As of December 31, 2021, the Company had approximately \$5,300,000 available under the Credit Agreement.

On March 5, 2021, the applicable regulators announced that LIBOR will cease to be provided and will no longer be representative (i) immediately after December 31, 2021 for all sterling, euro, Swiss franc and Japanese yen settings, and the one-week and two-month U.S. dollar settings and (ii) immediately after June 30, 2023 for the remaining U.S. dollar settings. The Company's debt bears interest based on the one-month LIBOR rate. If there is a LIBOR Disruption Event as defined in the Credit Agreement, LIBOR will be replaced with the Prime Rate.

Financing Activity

On January 25, 2019, FlexShopper, LLC (the "Borrower") entered into a subordinated debt financing letter agreement with 122 Partners, LLC, as lender, pursuant to which FlexShopper, LLC issued a subordinated promissory note to 122 Partners, LLC (the "122 Partners Note") in the principal amount of \$1,000,000. H. Russell Heiser, Jr., FlexShopper's Chief Financial Officer, is a member of 122 Partners, LLC. Payment of the principal amount and accrued interest under the 122 Partners Note was due and payable by the borrower on April 30, 2020 and the borrower can prepay principal and interest at any time without penalty. Amounts outstanding under the 122 Partners Note bear interest at a rate equal to 5.00% per annum in excess of the non-default rate of interest from time to time in effect under the Credit Agreement. Obligations under the 122 Partners Note are subordinated to obligations under the Credit Agreement. The 122 Partners Note is subject to customary representations and warranties and events of default. If an event of default occurs and is continuing, the Borrower may be required to repay all amounts outstanding under the 122 Partners Note. Obligations under the 122 Partners Note are secured by substantially all of the Borrower's assets, subject to the senior rights of the lenders under the Credit Agreement. On April 30, 2020, pursuant to an amendment to the subordinated debt financing letter agreement, the Borrower and 122 Partners, LLC agreed to extend the maturity date of the 122 Partners Note to April 30, 2021. On March 22, 2021, FlexShopper, LLC executed an amendment to the 122 Partners Note such that the maturity date of the 122 Partners Note was extended to April 1, 2022. No other changes were made to such Note. As of December 30, 2021, \$1,011,439 of principal and accrued and unpaid interest was outstanding on the 122 Partners Note.

The Borrower previously entered into letter agreements with NRNS Capital Holdings LLC ("NRNS"), the manager of which is the Chairman of the Company's Board of Directors, pursuant to which the Borrower issued subordinated promissory notes to NRNS (the "NRNS Note") in the total principal amount of \$3,750,000. Payment of principal and accrued interest under the NRNS Note was due and payable by the Borrower on June 30, 2021 and FlexShopper, LLC can prepay principal and interest at any time without penalty. Amounts outstanding under the NRNS Note bear interest at a rate equal to 5.00% per annum in excess of the non-default rate of interest from time to time in effect under the Credit Agreement. Obligations under the NRNS Note are subordinated to obligations under the Credit Agreement. The NRNS Note is subject to customary representations and warranties and events of default. If an event of default occurs and is continuing, the Borrower may be required to repay all amounts outstanding under the NRNS Note. Obligations under the NRNS Note is secured by substantially all of the Borrower's assets, subject to rights of the lenders under the Credit Agreement. On March 22, 2021, FlexShopper, LLC executed an amendment to the NRNS Note such that the maturity date was extended to April 1, 2022. On February 2, 2022, FlexShopper LLC executed other amendment to the NRNS Note. This last amendment extended the maturity date from April 1, 2022 to July 1, 2024 and increased the credit commitment from \$3,750,000 to \$11,000,000. No other changes were made to such Note. As of December 30, 2021, \$3,792,923 of principal and accrued and unpaid interest was outstanding on the NRNS Note.

The Company applied for and received a loan (the "Loan") on May 4, 2020, from Customers Bank (the "PPP Lender") in the principal amount of \$1,914,100, pursuant to the Paycheck Protection Program (the "PPP") under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which was enacted March 27, 2020, and administered through the U.S. Small Business Administration (the "SBA").

The Loan was evidenced by a promissory note (the "Note"), dated April 30, 2020, issued by the Borrower to the PPP Lender. The Note matured on April 30, 2022 and bore interest at the rate of 1.00% per annum, payable monthly commencing the later of on November 30, 2020 or the SBA review of the forgiveness application. The Note might be prepaid by the Borrower at any time prior to maturity with no prepayment penalty. Proceeds from the Loan were available to the Borrower to fund designated expenses, including certain payroll costs, group health care benefits and other permitted expenses, in accordance with the PPP. Under the terms of the PPP, up to the entire sum of the principal amount and accrued interest might be forgiven to the extent the Loan proceeds were used for qualifying expenses as described in the CARES Act and applicable implementing guidance issued by the U.S. Small Business Administration under the PPP.

On June 21, 2021 we were notified that effective April 7, 2021, the U.S. Small Business Administration confirmed the waiver of FlexShopper's repayment of a \$1,914,000 Paycheck Protection Program promissory note issued to the Company on May 4, 2020. As a result of the PPP promissory note forgiveness, the Company recognized a gain from the extinguishment of the loan, including accrued interest, of \$1,931,825.

Cash Flow Summary

Cash Flows from Operating Activities

Net cash used in operating activities was \$11,256,031 for the year ended December 31, 2021 and was primarily due to the purchases of leased merchandise and the change in accounts receivable, partially offset by the add back of provision for doubtful accounts and the add back of depreciation and impairment on leased merchandise.

Net cash used in operating activities was \$5,207,547 for the year ended December 31, 2020 and was primarily due to the purchases of leased merchandise and the change in accounts receivable, partially offset by the add back of provision for doubtful accounts and the add back of depreciation and impairment on leased merchandise.

Cash Flows from Investing Activities

For the year ended December 31, 2021, net cash used in investing activities was \$4,949,544 comprised of \$1,248,445 for the purchase of property and equipment and \$3,701,099 for capitalized software costs and data costs.

For the year ended December 31, 2020, net cash used in investing activities was \$3,098,194 comprised of \$732,582 for the purchase of property and equipment and \$2,365,612 for capitalized software costs.

Cash Flows from Financing Activities

Net cash provided by financing activities was \$12,758,985 for the year ended December 31, 2021 primarily due to the funds drawn on the Credit Agreement of \$19,850,000, offset by repayments of amounts borrowed under the Credit Agreement of \$6,575,000.

Net cash provided by financing activities was \$9,978,501 for the year ended December 31, 2020 primarily due to the funds drawn on the Credit Agreement of \$15,033,000 and \$1,914,100 of proceeds received under the Paycheck Protection Program, offset by repayments of amounts borrowed under the Credit Agreement of \$7,023,250.

Capital Resources and Financial Condition

To date, funds derived from the sale of FlexShopper's common stock, warrants, Series 1 Convertible Preferred Stock and Series 2 Convertible Preferred Stock and the Company's ability to borrow funds against the lease portfolio have provided the liquidity and capital resources necessary to fund its operations.

Management believes that liquidity needs for future growth through at least the next 12 months can be met by cash flow from operations generated by the existing portfolio and/or additional borrowings against the Credit Agreement (see Note 6) and against the related parties promissory notes (NRNS Note, see Note 5).

Financial Impact of COVID-19 Pandemic

The COVID-19 Pandemic and the related stimulus programs had, and may continue to have, an impact on the Company. The immediate impact early in the second quarter of 2020 was a transition to a significant percentage of the Company's employees working remotely. Fortunately, our South Florida location requires a thorough Hurricane Impact plan enabling all our employees to work remotely, if necessary. All employees, via specially configured laptops, are able to access the same data and have the same functionality as if they were in the office. Throughout the pandemic, FlexShopper rotated select groups of employees into the office in order to adjust to the other business impacts on the business. As of the end of December 2021, approximately 15% of our employees are working remotely.

The other impacts to the business can be broken into three categories. The first is the decrease in the availability of our lease financing product. Pre-COVID-19, approximately 40% of new customers were obtained through brick and mortar or B2B retailers. The pandemic-related closing and limited operations of retailers, as well as shelter in place orders, limited our new customers from this channel substantially over the second quarter and third quarter of 2020. Through the first half of the second quarter of 2021 there was diminished demand from our B2B retailers resulting from pandemic related issues. Moreover, since the crisis began, a number of our brick and mortar rollouts and pilots have been delayed or put on hold as our retailer partners attempt to return to a more stable operational environment. Fortunately, by the end of 2021, the percentage of new customers obtained from brick and mortar locations exceeded pre-pandemic levels.

The second impact was a Company reaction in the second quarter of 2020 to the uniqueness of the pandemic. Not knowing what the potential impact to consumer payment patterns would be, the Company significantly tightened approval rates. It was not until the end of the third quarter of 2020, that approval rates returned to the pre-pandemic levels. This decreased approval rate, both online and in third party stores, coupled with the retailer closures mentioned above, significantly reduced new lease originations. In 2021, the uniqueness of the pandemic had resulted in significant growth in BNPL (buy now pay later) options that were offered to our consumer segment. Despite a return to near pre-pandemic approval rates, the Company still experienced reduced demand for its product in 2021.

The third impact was on consumer behavior and payment patterns. The combination of stimulus payments and enhanced unemployment benefits measures provided by the Federal and/ or State Government throughout 2020 and early 2021 were especially impactful to our typical customer. As a result of enhanced income, the demand for our products was reduced, the likelihood of consumers choosing early payoff options increased substantially and, on a positive note, the asset level performance of our full-term customer, relative to their expected performance, increased substantially. The first sign of the return to more normal payment patterns was a reduction in the elevated amount of early pay offs experienced by the Company which occurred in the middle of 2021.

Despite the availability of COVID-19 vaccines in 2021, the number of COVID-19 cases had increased at various times throughout 2021 as the result of the appearance of new variants.

As of the end of 2021, the reduced demand was evident in our digital marketing channels through the conversion rate of new applicants. However, the enhanced payment performance, versus our expected performance, began to wane which would seem to be a potential initial indicator of a return to the Pre-COVID-19 environment.

Finally, throughout the pandemic, the Company has been able to grow the overall size of the lease portfolio, net of early payoffs, despite the items mentioned previously. At no point, have there been liquidity concerns or covenant complications. In fact, our credit facility was upsized, our product breadth increased and our covenants reduced in 2021.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

The information required by Item 7A is not required to be provided by issuers that satisfy the definition of “smaller reporting company” under SEC rules.

Item 8. Financial Statements and Supplementary Data.

Consolidated Financial Statements

Our Independent Registered Public Accounting Firm is EisnerAmper LLP, Iselin, New Jersey (PCAOB ID: 274)

The reports of the Independent Registered Public Accounting Firm, Consolidated Financial Statements and Schedules are set forth beginning on F-1.

FLEXSHOPPER, INC.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
FlexShopper, Inc.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of FlexShopper Inc., and Subsidiaries (the “Company”) as of December 31, 2021 and 2020 and the related statements of operations, stockholders’ equity, and cash flows for each of the years then ended and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of their operations and their cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Collectability of Accounts Receivable

As discussed in Note 2 to the financial statements, the Company recognized approximately \$40,490,000 of receivable reserves during the year ended December 31, 2021, with a corresponding reduction to lease revenue and fees. At December 31, 2021, the Company recorded an allowance of approximately \$27,700,000. The Company determines the amount of allowance to recognize as a portion of its gross customer billings based upon historical and current payment trends.

We identified management’s estimate of the receivable reserve and the corresponding allowance as a critical audit matter due to the significant amount of judgement required by management in determining its estimates. This in turn resulted in significant effort and a high degree of subjectivity, in performing our audit procedures and in evaluating audit evidence relating to the collectability of accounts receivable made by management.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the financial statements. Our procedures included, among others, (i) obtaining an understanding of management’s process and evaluating the design of controls related to the allowance; (ii) verifying that for a sample of leases, the Company had correctly applied payments to the appropriate lease; and (iii) independently recalculating the Company’s analysis of its lease portfolio collectability on a historical and current basis including a review of payment trends subsequent to December 31, 2021 and comparing that result against the Company’s calculations for reasonableness.

/s/ EisnerAmper LLP

We have served as the Company’s auditor since 2014.

EISNERAMPER LLP
Iselin, New Jersey
March 30, 2022

FLEXSHOPPER, INC.
CONSOLIDATED BALANCE SHEETS

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 5,094,642	\$ 8,541,232
Accounts receivable, net	29,898,991	10,032,714
Prepaid expenses	957,527	869,081
Lease merchandise, net	40,942,112	42,822,340
Total current assets	<u>76,893,272</u>	<u>62,265,367</u>
PROPERTY AND EQUIPMENT, net	7,841,206	5,911,696
OTHER ASSETS, net	<u>77,578</u>	<u>72,316</u>
Total assets	<u><u>\$ 84,812,056</u></u>	<u><u>\$ 68,249,379</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 7,982,180	\$ 7,907,619
Accrued payroll and related taxes	391,078	352,102
Promissory notes to related parties, net of \$1,274 at 2021 and net of \$8,276 at 2020 of unamortized issuance costs, including accrued interest	1,053,088	4,815,546
Current portion of promissory note – Paycheck Protection Program, including accrued interest	-	1,184,952
Accrued expenses	2,987,646	2,646,800
Lease liability - current portion	172,732	160,726
Total current liabilities	<u>12,586,724</u>	<u>17,067,745</u>
Loan payable under credit agreement to beneficial shareholder, net of \$413,076 at 2021 and \$61,617 at 2020 of unamortized issuance costs and current portion	50,061,924	37,134,009
Promissory notes to related parties, net of current portion	3,750,000	-
Promissory note – Paycheck Protection Program, net of current portion	-	741,787
Accrued payroll and related taxes net of current portion	-	204,437
Deferred income tax liability	495,166	-
Lease liabilities net of current portion	1,774,623	1,947,355
Total liabilities	<u>68,668,437</u>	<u>57,095,333</u>
STOCKHOLDERS' EQUITY		
Series 1 Convertible Preferred Stock, \$0.001 par value - authorized 250,000 shares, issued and outstanding 170,332 shares at \$5.00 stated value	851,660	851,660
Series 2 Convertible Preferred Stock, \$0.001 par value - authorized 25,000 shares, issued and outstanding 21,952 shares at \$1,000 stated value	21,952,000	21,952,000
Common stock, \$0.0001 par value- authorized 40,000,000 shares, issued and outstanding 21,442,278 shares at 2021 and 21,359,945 shares at 2020	2,144	2,136
Additional paid in capital	38,560,117	36,843,326
Accumulated deficit	(45,222,302)	(48,495,076)
Total stockholders' equity	<u>16,143,619</u>	<u>11,154,046</u>
	<u><u>\$ 84,812,056</u></u>	<u><u>\$ 68,249,379</u></u>

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

FLEXSHOPPER, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the years ended	
	December 31,	
	<u>2021</u>	<u>2020</u>
Revenues:		
Lease revenues and fees, net	\$ 118,355,184	\$ 96,939,767
Lease merchandise sold	7,071,572	5,144,747
Total revenues	<u>125,426,756</u>	<u>102,084,514</u>
Costs and expenses:		
Cost of lease revenues, consisting of depreciation and impairment of lease merchandise	73,616,293	63,308,210
Cost of lease merchandise sold	5,561,593	3,424,880
Marketing	9,129,062	5,880,063
Salaries and benefits	11,489,208	10,440,693
Operating expenses	18,265,781	14,404,953
Total costs and expenses	<u>118,061,937</u>	<u>97,458,799</u>
Operating income	7,364,819	4,625,715
Gain on extinguishment of debt	1,931,825	-
Interest expense including amortization of debt issuance costs	(5,238,560)	(4,302,561)
Income before income taxes	4,058,084	323,154
Provision for income taxes	(785,310)	(663,050)
Net income/ (loss)	3,272,774	(339,896)
Deemed dividend from exchange offer of warrants	-	713,212
Dividends on Series 2 Convertible Preferred Shares	2,439,099	2,438,988
Net income/ (loss) attributable to common and Series 1 Convertible Preferred shareholders	<u>\$ 833,675</u>	<u>\$ (3,492,096)</u>
Basic and diluted income/(loss) per common share:		
Basic	\$ 0.04	\$ (0.17)
Diluted	<u>0.04</u>	<u>(0.17)</u>
WEIGHTED AVERAGE COMMON SHARES:		
Basic	21,387,960	20,995,349
Diluted	<u>23,227,964</u>	<u>20,995,349</u>

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

FLEXSHOPPER, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the year ended December 31, 2021 and 2020

	Series 1 Convertible Preferred Stock		Series 2 Convertible Preferred Stock		Common Stock		Additional Paid in	Accumulated	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	
Balance, January 1, 2020	171,191	\$ 855,955	21,952	\$ 21,952,000	17,783,960	\$ 1,779	\$ 35,313,721	\$ (48,155,180)	\$ 9,968,275
Provision for compensation expense related to stock options	-	-	-	-	-	-	981,261	-	981,261
Issuance of warrants in connection with consulting agreements	-	-	-	-	-	-	407,494	-	407,494
Exercise of stock options into common stock	-	-	-	-	7,166	1	5,661	-	5,662
Conversion of preferred stock to common stock	(859)	(4,295)	-	-	1,136	-	4,295	-	-
Exercise of warrants into common stock	-	-	-	-	105,000	10	131,240	-	131,250
Exchange offer of warrants	-	-	-	-	3,462,683	346	(346)	-	-
Net loss	-	-	-	-	-	-	-	(339,896)	(339,896)
Balance, December 31, 2020	170,332	851,660	21,952	21,952,000	21,359,945	2,136	36,843,326	(48,495,076)	\$ 11,154,046
Provision for compensation expense related to stock options	-	-	-	-	-	-	1,125,819	-	1,125,819
Issuance of warrants in connection with consulting agreements	-	-	-	-	-	-	522,808	-	522,808
Exercise of stock options into common stock	-	-	-	-	82,333	8	68,164	-	68,172
Net income	-	-	-	-	-	-	-	3,272,774	3,272,774
Balance, December 31, 2021	<u>170,332</u>	<u>\$ 851,660</u>	<u>21,952</u>	<u>\$ 21,952,000</u>	<u>21,442,278</u>	<u>\$ 2,144</u>	<u>\$ 38,560,117</u>	<u>\$ (45,222,302)</u>	<u>\$ 16,143,619</u>

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

FLEXSHOPPER, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income/(loss)	\$ 3,272,774	\$ (339,896)
Adjustments to reconcile net income/(loss) to net cash used in operating activities:		
Depreciation and impairment of lease merchandise	73,616,293	63,308,210
Other depreciation and amortization	2,871,541	2,271,287
Amortization of debt issuance cost	220,816	305,797
Compensation expense related to issuance of stock options and warrants	1,648,627	1,388,755
Provision for doubtful accounts	40,489,540	31,930,714
Interest in kind added to promissory notes balance	9,460	13,388
Write off of capitalized software costs	4,361	-
Deferred income tax	495,166	-
Gain on debt extinguishment	(1,931,825)	-
Changes in operating assets and liabilities:		
Accounts receivable	(60,355,817)	(33,691,096)
Prepaid expenses and other	(87,394)	(195,104)
Lease merchandise	(71,736,065)	(75,067,446)
Security deposits	(8,338)	2,943
Accounts payable	74,561	3,339,730
Lease liabilities	(5,811)	198,528
Accrued payroll and related taxes	(165,461)	43,271
Accrued expenses	331,541	1,283,372
Net cash used in operating activities	<u>(11,256,031)</u>	<u>(5,207,547)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment, including capitalized software and data costs	(4,949,544)	(3,098,194)
Net cash used in investing activities	<u>(4,949,544)</u>	<u>(3,098,194)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan payable under credit agreement	19,850,000	15,033,000
Repayment of loan payable under credit agreement	(6,575,000)	(7,023,250)
Proceeds from promissory notes- Paycheck Protection Program, net of fees	-	1,914,100
Principal payment under finance lease obligation	(7,707)	(6,664)
Proceeds from exercise of warrants	-	131,250
Proceeds from exercise of stock options	68,172	5,662
Repayment of installment loan	(11,207)	(11,207)
Debt issuance related costs	(565,273)	(64,390)
Net cash provided by financing activities	<u>12,758,985</u>	<u>9,978,501</u>
(DECREASE)/ INCREASE IN CASH	(3,446,590)	1,672,760
CASH, beginning of period	8,541,232	6,868,472
CASH, end of period	<u>\$ 5,094,642</u>	<u>\$ 8,541,232</u>
Supplemental cash flow information:		
Interest paid	\$ 4,945,690	\$ 3,973,374
Deemed dividend from exchange offer of warrants	\$ -	\$ 713,212
Conversion of preferred stock to common stock	\$ -	\$ 4,295

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

FLEXSHOPPER, INC.
Notes To Consolidated Financial Statements
For the year ended December 30, 2021 and 2020

1. BUSINESS

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

In January 2015, in connection with the Credit Agreement entered in March 2015 (see Note 6), FlexShopper 1 LLC and FlexShopper 2 LLC were organized as wholly owned Delaware subsidiaries of FlexShopper LLC to conduct operations. FlexShopper Inc, together with its subsidiaries, are hereafter referred to as “FlexShopper.”

FlexShopper 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. The Company effects these transactions by first approving consumers through its proprietary, risk analytics-powered underwriting model. After receiving a signed consumer lease, the Company then funds the leased item by purchasing the item from the Company’s merchant partner and leasing it to the consumer. The Company then collects payments from consumers under their consumer lease.

2. 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 (“GAAP”) requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition - Merchandise is leased to customers pursuant to lease purchase agreements which provide for weekly lease terms with non-refundable lease payments. Generally, the customer has the right to acquire title either through a 90-day same as cash option, an early purchase option, or through completion of all required lease payments, generally 52 weeks. On any current lease, customers have the option to cancel the agreement in accordance with lease terms and return the merchandise. Customer agreements are accounted for as operating leases with lease revenues recognized in the month they are due on the accrual basis of accounting. Merchandise sales revenue is recognized when the customer exercises the purchase option and pays the purchase price. Revenue for lease payments received prior to their due date is deferred and is recognized as revenue in the period to which the payments relate. Revenues from leases and sales are reported net of sales taxes.

Accounts Receivable and Allowance for Doubtful Accounts - FlexShopper seeks to collect amounts owed under its leases from each customer on a weekly or biweekly 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 aforementioned manner and therefore the Company has an in-house and near-shore team to collect on the past due amounts FlexShopper maintains an allowance for doubtful accounts, under which FlexShopper’s policy is to record an allowance for estimated uncollectible charges, primarily based on historical collection experience that considers both the aging of the lease and the origination channel. Other qualitative factors are considered in estimating the allowance, such as seasonality, underwriting changes and other business trends. We believe our allowance is adequate to absorb all expected losses.. The accounts receivable balances consisted of the following as of December 31, 2021 and December 31, 2020:

	December 31, 2021	December 31, 2020
Accounts receivable	\$ 57,602,269	\$ 32,171,255
Allowance for doubtful accounts	(27,703,278)	(22,138,541)
Accounts receivable, net	<u>\$ 29,898,991</u>	<u>\$ 10,032,714</u>

The allowance is a significant percentage of the balance because FlexShopper does not charge off any customer account until it has exhausted all collection efforts with respect to each account, including attempts to repossess items. In addition, while collections are pursued, the same delinquent customers continue to accrue weekly charges until they are charged off. As the lease ages, the greater the allowance attributable to that account to reflect the decreased likelihood of successful collection efforts. Accounts receivable balances charged off against the allowance were \$34,924,803 for the year ended December 31, 2021 respectively and \$19,769,114 for the year ended December 31, 2020, respectively. During the years ended December 31, 2021 and 2020, the provision for bad debt was \$40,489,540 and \$31,930,714, respectively. The following table shows the activity in the allowance for doubtful accounts:

	December 31, 2021	December 31, 2020
Beginning balance	\$ 22,138,541	\$ 9,976,941
Provision	40,489,540	31,930,714
Accounts written off	(34,924,803)	(19,769,114)
Ending balance	<u>\$ 27,703,278</u>	<u>\$ 22,138,541</u>

Lease Merchandise - Until all payment obligations for ownership are satisfied under the lease agreement, the Company maintains ownership of the lease merchandise. Lease merchandise consists primarily of residential furniture, consumer electronics, computers, appliances and household accessories and is recorded at cost net of accumulated depreciation. The Company depreciates leased merchandise using the straight-line method over the applicable agreement period for a consumer to acquire ownership, generally twelve months with no salvage value. Upon transfer of ownership of merchandise to customers resulting from satisfaction of their lease obligations, the related cost and accumulated depreciation are eliminated from lease merchandise. For lease merchandise returned or anticipated to be returned either voluntarily or through repossession, the Company provides an impairment reserve for the undepreciated balance of the merchandise net of any estimated salvage value with a corresponding charge to cost of lease revenue. The cost, accumulated depreciation and impairment reserve related to such merchandise are written off upon determination that no salvage value is obtainable.

The net leased merchandise balances consisted of the following as of December 31, 2021 and December 31, 2020:

	December 31, 2021	December 31, 2020
Lease merchandise at cost	\$ 72,159,063	\$ 64,335,971
Accumulated depreciation	(29,505,431)	(19,162,357)
Impairment reserve	(1,711,520)	(2,351,274)
Lease merchandise, net	<u>\$ 40,942,112</u>	<u>\$ 42,822,340</u>

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

Lease accounting

The Company accounts for leases in accordance with Accounting Standards Codification (ASC) Topic 842 Leases (Topic 842). Under Topic 842, lessees are required to recognize for all leases at the commencement date as 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. Under the same Topic, lessors are also required to classify leases. All customer agreements are considered operating leases, and the Company currently does not have any sales-type or direct financing leases as a lessor. An operating lease results in the recognition of lease income on a straight-line basis, while the underlying leased asset remains on the lessor's balance sheet and continues to depreciate.

The breakout of lease revenues and fees, net of lessor bad debt expense, is shown below:

	Year ended	
	December 31,	
	2021	2020
Lease billings and accruals	\$ 158,844,724	\$ 128,870,481
Provision for doubtful accounts	(40,489,540)	(31,930,714)
Lease revenues and fees	<u>\$ 118,355,184</u>	<u>\$ 96,939,767</u>

Deferred Debt Issuance Costs - Debt issuance costs incurred in conjunction with the Credit Agreement entered into on March 6, 2015 and subsequent amendments (see Note 6) are offset against the outstanding balance of the loan payable and are amortized using the straight-line method over the remaining term of the related debt, which approximates the effective interest method. Amortization which is included in interest expense was \$213,814 and \$283,912 for the years ended December 31, 2021 and 2020, respectively.

Debt issuance costs incurred in conjunction with the subordinated Promissory Notes (see Note 5) are offset against the outstanding balance of the loan payable and are amortized using the straight-line method over the remaining term of the related debt, which approximates the effective interest method. Amortization, which is included in interest expense, was \$7,002 and \$21,885 for the years ended December 31, 2021 and 2020, respectively.

Intangible Assets - Intangible assets consist of a patent on the Company's LTO payment method at check-out for third party e-commerce sites. Patents are stated at cost less accumulated amortization. Patent costs are amortized by using the straight-line method over the legal life, or if shorter, the useful life of the patent, which has been estimated to be 10 years. Intangible assets amortization expense was \$3,076 for the years ended December 31, 2021 and 2020.

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 \$2,816,939 and \$2,365,612 for the years ended December 31, 2021 and 2020, respectively. The Company wrote off \$4,361 of capitalized development costs in 2021. Capitalized software amortization expense was \$2,317,626 and \$2,102,983 for the years ended December 31, 2021 and 2020, respectively.

Data Costs - The Company buys data from different vendors upon receipt of an application. The data costs directly used to make underwriting decisions are expensed as incurred. Certain data costs that are probable to provide future economic benefit to the Company are capitalized as property and equipment and amortized on a straight-line basis over their estimate useful lives. The probability to provide future economic benefit of the data cost assets is estimated based upon future usage of the information on different areas and products of the Company. At the beginning of the third quarter of 2021, the Company made several changes remarked by the implementation of a more discipline process around data procurement and storage. Those improvements triggered a change in the estimate of the probability to provide future economic benefit of some data cost.

Capitalized data costs amounted to \$884,160 for the year ended December 31, 2021. Capitalized data costs amortization expense was \$86,717 for the years ended December 31, 2021.

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

Marketing Costs - Marketing costs, primarily consisting of advertising, are charged to expense as incurred. Direct acquisition costs, primarily consisting of commissions earned based on lease originations, are capitalized and amortized over the life of the lease.

Per Share Data - Per share data is computed by use of the two-class method as a result of outstanding Series 1 Convertible Preferred Stock, which participates in dividends with the common stock and accordingly has participation rights in undistributed earnings as if all such earnings had been distributed during the period (see Note 7). Under such method income available to common shareholders is computed by deducting both dividends declared or, if not declared, accumulated on Series 2 Convertible Preferred Stock from income from continuing operations and from net income. Loss attributable to common shareholders is computed by increasing loss from continuing operations and net loss by such dividends. Where the Company has undistributed net income available to common shareholders, basic earnings per common share is computed based on the total of any dividends paid or declared per common share plus undistributed income per common share determined by dividing net income available to common shareholders reduced by any dividends paid or declared on common and participating Series 1 Convertible Preferred Stock by the total of the weighted average number of common shares outstanding plus the weighted average number of common shares issuable upon conversion of outstanding participating Series 1 Convertible Preferred Stock during the period. Where the Company has a net loss, basic per share data (including income from continuing operations) is computed based solely on the weighted average number of common shares outstanding during the period. As the participating Series 1 Convertible Preferred Stock has no contractual obligation to share in the losses of the Company, common shares issuable upon conversion of such preferred stock are not included in such computations.

Diluted earnings per share is based on the more dilutive of the if-converted method (which assumes conversion of the participating Series 1 Convertible Preferred Stock as of the beginning of the period) or the two-class method (which assumes that the participating Series 1 Convertible Preferred Stock is not converted) plus the potential impact of dilutive non-participating Series 2 Convertible Preferred Stock, options and warrants. The dilutive effect of stock options and warrants is computed using the treasury stock method, which assumes the repurchase of common shares at the average market price during the period. Under the treasury stock method, options and warrants will have a dilutive effect when the average price of common stock during the period exceeds the exercise price of options or warrants. When there is a loss from continuing operations, potential common shares are not included in the computation of diluted loss per share, since they have an anti-dilutive effect.

In computing diluted income/ (loss) per share for the year ended December 31, 2021 and the year ended December 31, 2020, no effect has been given to the issuance of common stock upon conversion or exercise of the Series 2 Convertible Preferred stock as their effect is anti-dilutive.

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

	Year ended December 31,	
	2021	2020
Series 1 Convertible Preferred Stock	225,231	225,231
Series 2 Convertible Preferred Stock	5,845,695	5,845,695
Series 2 Convertible Preferred Stock issuable upon exercise of warrants	116,903	116,903
Common Stock Options	3,080,904	2,595,700
Common Stock Warrants	2,255,184	2,112,488
	<u>11,523,917</u>	<u>10,896,017</u>

The following table sets forth the computation of basic and diluted earnings per common share for the year ended December 31, 2021 and 2020:

	Year ended	
	December 31,	
	2021	2020
Numerator		
Net income/(loss)	\$ 3,272,774	(339,896)
Convertible Series 2 Preferred Share dividends	(2,439,099)	(2,438,988)
Net income/(loss) attributable to common and Series 1 Convertible Preferred Stock	833,675	(2,778,884)
Deemed dividend from exchange offer of warrants	-	(713,212)
Convertible Series 2 Preferred Share dividends attributable to Series 1 Convertible Preferred Stock	25,418	-
Net income attributable to Series 1 Convertible Preferred Stock	(34,106)	-
Net income/(loss) attributable to common shares - Numerator for basic and diluted EPS	<u>\$ 824,987</u>	<u>(3,492,096)</u>
Denominator		
Weighted average of common shares outstanding- Denominator for basic EPS	21,387,960	20,995,349
Effect of dilutive securities:		
Common stock options	978,978	-
Common stock warrants	861,026	-
Denominator for diluted EPS – adjusted weighted average shares	<u>23,227,964</u>	<u>20,995,349</u>
Basic EPS	\$ 0.04	(0.17)
Diluted EPS	\$ 0.04	(0.17)

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

Compensation expense is determined by reference to the fair value of an award on the date of grant and is recognized on a straight-line basis over the vesting period. The Company has elected to use the Black-Scholes-Merton (BSM) pricing model to determine the fair value of all stock option awards (See Note 8).

Fair Value of Financial Instruments - The carrying value of certain financial instruments such as cash, accounts receivable, and accounts payable approximate their fair value due to their short-term nature. The carrying value of loans payable under the Credit Agreement increased by unamortized issuance costs and the carrying value of promissory notes to related parties approximate fair value based upon their interest rates, which approximate 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 December 30, 2021, and 2020, the Company had not recorded any unrecognized tax benefits. Interest and penalties related to liabilities for uncertain tax positions will be charged to interest and operating expenses, respectively.

Recent Accounting Pronouncements

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, as amended “Financial Instruments - Credit Losses (Topic 326)” revises the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. The effective date of Topic 326 for public companies that are considered smaller reporting companies as defined by the SEC as for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company is planning to adopt this standard on January 1, 2023. While the Company is continuing to assess the potential effects of adopting the provisions of Topic 326, it does not expect to have a material effect, if any, on its Consolidated Financial Statements, as this Topic does not cover operating leases receivables.

In March 2020, the FASB issued guidance codified in ASU 2020-04 and ASU 2021-01, “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting,” which provides optional expedients for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. ASU 2020-04 provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The standard is effective for the Company as of March 12, 2020 through December 31, 2022. An entity can elect to apply the amendments as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to that date that the financial statements are available to be issued. The Company is currently evaluating the optional expedients and exceptions provided by ASU 2020-04 to determine the impact on its consolidated financial statements.

3. LEASES

Refer to Note 2 of these consolidated financial statements for further information about the Company’s revenue generating activities as a lessor. All customer agreements are considered operating leases, and the Company currently does not have any sales-type or direct financing leases.

Lease Commitments

FlexShopper had a lease for retail store space in West Palm Beach, Florida. The term of the lease was to December 30, 2021. In March 2021, FlexShopper and the lessor agreed on the early termination of the lease for this property. The monthly rent for this space was approximately \$2,300 per month.

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

In September 2021, FlexShopper entered into a 12-month lease for an office space for approximately 18 people at the Battery at SunTrust Park at Georgia, Atlanta mainly to expand the sales team. The monthly rent for this space is approximately \$6,900 per month. This lease is accounted for under the practical expedient for leases with initial terms of 12 months or less, and as such no related right of use asset or liability was recorded.

The rental expense for the year ended December 31, 2021 and 2020 was approximately \$679,000 and \$688,000 respectively. At December 31, 2021, the future minimum annual lease payments are approximately as follows:

2022	\$ 472,000
2023	427,000
2024	435,000
2025	443,000
2026	456,000
Thereafter	774,000
	<u>\$ 3,007,000</u>

The Company determines if an arrangement is a lease at inception. Operating lease assets and liabilities are included in the Company’s consolidated balance sheets beginning January 1, 2019.

Supplemental balance sheet information related to leases is as follows:

	<u>Balance Sheet Classification</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Assets			
Operating Lease Asset	Property and Equipment, net	\$ 1,534,512	\$ 1,673,432
Finance Lease Asset	Property and Equipment, net	18,818	27,106
Total Lease Assets		<u>\$ 1,553,330</u>	<u>\$ 1,700,538</u>
Liabilities			
Operating Lease Liability – current portion	Current Lease Liabilities	\$ 163,939	\$ 153,019
Finance Lease Liability – current portion	Current Lease Liabilities	8,793	7,707
Operating Lease Liability – net of current portion	Long Term Lease Liabilities	1,761,558	1,925,498
Finance Lease Liability – net of current portion	Long Term Lease Liabilities	13,065	21,857
Total Lease Liabilities		<u>\$ 1,947,355</u>	<u>\$ 2,108,081</u>

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

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

	<u>Weighted Average Discount Rate</u>	<u>Weighted Average Remaining Lease Term (in years)</u>
Operating Leases	13.03%	7
Finance Leases	13.32%	2

Operating lease expense is recognized on a straight-line basis over the lease term within operating expenses in the Company's consolidated statements of operations. Finance lease expense is recognized over the lease term within interest expense and amortization in the Company's consolidated statements of operations. The Company's total operating and finance lease expense all relate to lease costs and amounted to \$401,463 and \$433,654 for the year ended December 31, 2021 and December 31, 2020, respectively.

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

	<u>Year ended December 30,</u>	
	<u>2021</u>	<u>2020</u>
Cash payments for operating leases	\$ 400,771	\$ 221,433
Cash payments for finance leases	11,184	11,049
New finance lease asset obtained in exchange for lease liabilities	-	4,033

Below is a summary of undiscounted operating lease liabilities as of December 30, 2021. The table also includes a reconciliation of the future undiscounted cash flows to the present value of the operating lease liabilities included in the consolidated balance sheet.

	Operating Leases
2022	\$ 405,443
2023	417,606
2024	430,134
2025	443,038
2026	456,330
2027 and thereafter	773,594
Total undiscounted cash flows	<u>2,926,145</u>
Less: interest	<u>(1,000,648)</u>
Present value of lease liabilities	<u>\$ 1,925,497</u>

Below is a summary of undiscounted finance lease liabilities as of December 30, 2021. The table also includes a reconciliation of the future undiscounted cash flows to the present value of the finance lease liabilities included in the consolidated balance sheet.

	Finance Leases
2022	\$ 11,184
2023	9,699
2024	4,782
Total undiscounted cash flows	<u>25,665</u>
Less: interest	<u>(3,807)</u>
Present value of lease liabilities	<u>\$ 21,858</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	Estimated Useful Lives	December 31, 2021	December 31, 2020
Furniture, fixtures and vehicle	2-5 years	\$ 391,669	\$ 303,285
Website, internal use software and data cost	3 years	16,186,179	12,489,441
Computers and software	3-7 years	<u>2,281,975</u>	<u>1,121,914</u>
		18,859,823	13,914,640
Less: accumulated depreciation and amortization		<u>(12,571,947)</u>	<u>(9,703,482)</u>
Right of use assets, net		<u>1,553,330</u>	<u>1,700,538</u>
		<u>\$ 7,841,206</u>	<u>\$ 5,911,696</u>

Depreciation and amortization expense were \$2,872,826 and \$2,268,211 for the years ended December 31, 2021 and 2020, respectively.

5. PROMISSORY NOTES-RELATED PARTIES

122 Partners Note- On January 25, 2019, FlexShopper, LLC (the “Borrower”) entered into a subordinated debt financing letter agreement with 122 Partners, LLC, as lender, pursuant to which FlexShopper, LLC issued a subordinated promissory note to 122 Partners, LLC (the “122 Partners Note”) in the principal amount of \$1,000,000. H. Russell Heiser, Jr., FlexShopper’s Chief Financial Officer, is a member of 122 Partners, LLC. Payment of the principal amount and accrued interest under the 122 Partners Note was due and payable by the borrower on April 30, 2020 and the borrower can prepay principal and interest at any time without penalty. Amounts outstanding under the 122 Partners Note bear interest at a rate equal to 5.00% per annum in excess of the non-default rate of interest from time to time in effect under the Credit Agreement. Obligations under the 122 Partners Note are subordinated to obligations under the Credit Agreement. The 122 Partners Note is subject to customary representations and warranties and events of default. If an event of default occurs and is continuing, the Borrower may be required to repay all amounts outstanding under the 122 Partners Note. Obligations under the 122 Partners Note are secured by substantially all of the Borrower’s assets, subject to the senior rights of the lenders under the Credit Agreement. On April 30, 2020, pursuant to an amendment to the subordinated debt financing letter agreement, the Borrower and 122 Partners, LLC agreed to extend the maturity date of the 122 Partners Note to April 30, 2021. On March 22, 2021, FlexShopper, LLC executed an amendment to the 122 Partners Note such that the maturity date of the 122 Partners Note was extended to April 1, 2022. No other changes were made to such Note. Principal and accrued and unpaid interest outstanding on the 122 Partners Note was \$1,011,439 as of December 31, 2021 and \$1,015,510 as of December 31, 2020.

Interests paid for the 122 Partner Note were \$148,011 and \$165,280 for the year 2021 and 2020, respectively.

Interests expensed for the 122 Partner Note were \$143,940 and \$165,409 for the year 2021 and 2020, respectively.

As of March 30, 2022, the Company is finalizing an amendment to the 122 Partner Note to extend the maturity date for one more year.

NRNS Note- FlexShopper LLC (the “Borrower”) previously entered into letter agreements with NRNS Capital Holdings LLC (“NRNS”), the manager of which is the Chairman of the Company’s Board of Directors, pursuant to which the Borrower issued subordinated promissory notes to NRNS (the “NRNS Note”) in the total principal amount of \$3,750,000. Payment of principal and accrued interest under the NRNS Note was due and payable by the Borrower on June 30, 2021 and FlexShopper, LLC can prepay principal and interest at any time without penalty. Amounts outstanding under the NRNS Note bear interest at a rate equal to 5.00% per annum in excess of the non-default rate of interest from time to time in effect under the Credit Agreement. Obligations under the NRNS Note are subordinated to obligations under the Credit Agreement. The NRNS Note is subject to customary representations and warranties and events of default. If an event of default occurs and is continuing, the Borrower may be required to repay all amounts outstanding under the NRNS Note. Obligations under the NRNS Note is secured by substantially all of the Borrower’s assets, subject to rights of the lenders under the Credit Agreement. On March 22, 2021, FlexShopper, LLC executed an amendment to the NRNS Note such that the maturity date was extended to April 1, 2022. On February 2, 2022, FlexShopper LLC executed another amendment to the NRNS Note. This last amendment extended the maturity date from April 1, 2022 to July 1, 2024 and increased the credit commitment from \$3,750,000 to \$11,000,000. No other changes were made to such NRNS Note. Principal and accrued and unpaid interest outstanding on the NRNS Note was \$3,792,923 as of December 31, 2021 and \$3,808,312 as of December 31, 2020.

Interests paid for the NRNS Note were \$555,749 and \$619,961 for the year 2021 and 2020, respectively.

Interests expensed for the NRNS Note were \$540,360 and \$620,581 for the year 2021 and 2020, respectively.

Amounts payable under the promissory notes are as follows:

	Debt Principal	Interest
2022	\$ 1,000,000	\$ 54,362
2024	\$ 3,750,000	—

6. LOAN PAYABLE UNDER CREDIT AGREEMENT

On March 6, 2015, FlexShopper, through a wholly-owned subsidiary (“Borrower”), entered into a credit agreement (as amended from time-to-time, the “Credit Agreement”) with Wells Fargo Bank, National Association as paying agent, various lenders from time to time party thereto and WE 2014-1, LLC, an affiliate of Waterfall Asset Management, LLC, as administrative agent and lender (“Lender”). The Borrower is permitted to borrow funds under the Credit Agreement based on FlexShopper’s cash on hand and the Amortized Order Value of its Eligible Leases (as such terms are defined in the Credit Agreement) less certain deductions described in the Credit Agreement. Under the terms of the Credit Agreement, subject to the satisfaction of certain conditions, the Borrower may borrow up to \$57,500,000 from the Lender until the Commitment Termination Date and must repay all borrowed amounts one year thereafter, on the date that is 12 months following the Commitment Termination Date (unless such amounts become due or payable on an earlier date pursuant to the terms of the Credit Agreement). The Lender was granted a security interest in certain leases as collateral under this Agreement.

On January 29, 2021, the Company and the Lender signed an Omnibus Amendment to the Credit Agreement. This Amendment extended the Commitment Termination Date to April 1, 2024, amended other covenant requirements, partially removed indebtedness covenants and amended eligibility rules. The interest rate charged on amounts borrowed is LIBOR plus 11% per annum. At December 31, 2021, amounts borrowed bear interest at 11.25%.

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 payments of cash dividends on common stock. Additionally, the Credit Agreement includes covenants requiring FlexShopper to maintain a minimum amount of Equity Book Value, maintain a minimum amount of liquidity and cash and maintain a certain ratio of Consolidated Total Debt to Equity Book Value (each capitalized term, as defined in the Credit Agreement). Upon a Permitted Change of Control (as defined in the Credit Agreement), FlexShopper must refinance the debt under the Credit Agreement, subject to the payment of an early termination fee. A summary of the covenant requirements, and FlexShopper's actual results at December 31, 2021, follows:

	December 31, 2021	
	Required Covenant	Actual Position
Equity Book Value not less than	\$ 8,000,000	\$ 16,143,619
Liquidity greater than	1,500,000	5,094,642
Cash greater than	500,000	5,094,642
Consolidated Total Debt to Equity Book Value ratio not to exceed	5.25	3.40

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.

As of December 31, 2021, the Company had \$5,268,566 available under the Credit Agreement. Credit availability is subject to a borrowing base which is redetermined from time to time and based on specific advance rates on eligible current assets. As the Company continues to originate lease agreements, new leases will be eligible for the borrowing base and this will open more availability under the Credit Agreement.

Interest expense incurred under the Credit Agreement amounted to \$4,323,830 for the year ended December 31, 2021, and \$3,192,019 for the year ended December 31, 2020, respectively. The outstanding balance under the Credit Agreement was \$50,475,000 as of December 31, 2021 and was \$37,195,696 as of December 31, 2020. Such amount is presented in the consolidated balance sheet net of unamortized issuance costs of \$413,076 at 2021 and \$61,617 at 2020. Interest is payable monthly on the outstanding balance of the amounts borrowed. No principal is expected to be repaid in the next twelve months due to the Commitment Termination Date having been extended to April 1, 2024, or from reductions in the borrowing base. Accordingly, all principal is shown as a non-current liability at December 31, 2021.

On March 5, 2021, the applicable regulators announced that LIBOR will cease to be provided and will no longer be representative (i) immediately after December 31, 2021 for all sterling, euro, Swiss franc and Japanese yen settings, and the one-week and two-month U.S. dollar settings and (ii) immediately after June 30, 2023 for the remaining U.S. dollar settings. The Company's debt bears interest based on the one-month LIBOR rate. If there is a LIBOR Disruption Event as defined in the Credit Agreement, LIBOR will be replaced with the Prime Rate.

7. CAPITAL STRUCTURE

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

Preferred Stock

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

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

As of December 31, 2021, each share of Series 1 Convertible Preferred Stock was convertible into 1.32230 shares of the Company's common stock, subject to certain anti-dilution rights. The holders of the Series 1 Convertible Preferred Stock have the option to convert the shares to common stock at any time. Upon conversion, all accumulated and unpaid dividends, if any, will be paid as additional shares of common stock. The holders of Series 1 Convertible Preferred Stock have the same dividend rights as holders of common stock, as if the Series 1 Convertible Preferred Stock had been converted to common stock.

As of December 31, 2021, there were 170,332 shares of Series 1 Convertible Preferred Stock outstanding, which were convertible into 225,231 shares of common stock.

- **Series 2 Convertible Preferred Stock** – The Company sold to B2 FIE V LLC (the “Investor”), an entity affiliated with Pacific Investment Management Company LLC, 20,000 shares of Series 2 Convertible Preferred Stock (“Series 2 Preferred Stock”) for gross proceeds of \$20.0 million. The Company sold an additional 1,952 shares of Series 2 Preferred Stock to a different investor for gross proceeds of \$1.95 million at a subsequent closing.

The Series 2 Preferred Shares were sold for \$1,000 per share (the “Stated Value”) and accrue dividends on the Stated Value at an annual rate of 10% compounded annually. Cumulative accrued dividends as of December 31, 2021 totaled approximately \$13,271,173. As of December 31, 2021, each Series 2 Preferred Share was convertible into approximately 266 shares of common stock; however, the conversion rate is subject to further increase pursuant to a weighted average anti-dilution provision. The holders of the Series 2 Preferred Stock have the option to convert such shares into shares of common stock and have the right to vote with holders of common stock on an as-converted basis. If the average closing price during any 45-day consecutive trading day period or change of control transaction values the common stock at a price equal to or greater than \$23.00 per share, then conversion shall be automatic. Upon a Liquidation Event or Deemed Liquidation Event (each as defined), holders of Series 2 Preferred Stock shall be entitled to receive out of the assets of the Company prior to and in preference to the common stock and Series 1 Convertible Preferred Stock an amount equal to the greater of (1) the Stated Value, plus any accrued and unpaid dividends thereon, and (2) the amount per share as would have been payable had all shares of Series 2 Preferred Stock been converted to common stock immediately before the Liquidation Event or Deemed Liquidation Event.

Common Stock

The Company is authorized to issue 40,000,000 shares of common stock, par value \$0.0001 per share. Each share of common stock entitles the holder to one vote at all stockholder meetings. The common stock is traded on the Nasdaq Capital Market under the symbol “FPAY.”

Warrants

In September 2018, the Company issued warrants exercisable for 5,750,000 shares of common stock at an exercise price of \$1.25 per share (the “Public Warrants”). The warrants were immediately exercisable and expire five years from the date of issuance. The warrants were listed on the Nasdaq Capital Market under the symbol “FPAYW” (See Note 10).

The Company also issued additional warrants exercisable for an aggregate 1,055,184 shares of common stock at an exercise price of \$1.25 per warrant to Mr. Heiser and NRNS in connection with partial conversions of their promissory notes. The warrants are exercisable at \$1.25 per share of common stock and expire on September 28, 2023.

In connection with the issuance of Series 2 Convertible Preferred Stock in June 2016, the Company issued to the placement agent in such offering warrants exercisable for 439 shares of Series 2 Convertible Preferred Stock at an initial exercise price of \$1,250 per share, which expire seven years after the date of issuance.

As part of a consulting agreement with XLR8 Capital Partners LLC (the “Consulting Agreement”), an entity of which the Company’s Chairman is manager, the Company agreed to issue 40,000 warrants to XLR8 Capital Partners LLC monthly for 12 months beginning on March 1, 2019 at an exercise price of \$1.25 per share or, if the closing share price on the last day of the month exceeds \$1.25, then such exercise price will be 110% of the closing share price. The warrants are immediately exercisable and expire following the close of business on June 30, 2023. In February 2020, this agreement was extended for an additional six months through August 31, 2020. On August 30, 2020, the parties entered into an amendment to the Consulting Agreement to further extend the term for another six-month period through February 28, 2021. The Consulting Agreement automatically renewed for one successive six-month period, therefore the new termination date was August 31, 2021. There are no additional automatic renewals. The Consulting Agreement and amendments were approved by the Company’s Compensation Committee.

The August 2020 amendment also modified the alternative minimum exercise price of the monthly warrant consideration issuable to the Consultant to \$1.60 per share going forward, and the expiration date of the warrants to the date that is four years following the last trading day of the calendar month relating to the applicable monthly warrant issuance.

During the year ended December 31, 2021, the Company recorded an expense of \$522,808 based on a weighted average grant date fair value of \$1.63 per warrant.

Grant Date	Warrants Granted	Expense Recorded	Grant date fair value Per Warrant
January 31, 2021	40,000	\$ 73,595	\$ 1.84
February 29, 2021	40,000	76,318	1.91
March 31, 2021	40,000	63,010	1.58
April 30, 2021	40,000	60,542	1.51
May 31, 2021	40,000	63,156	1.58
June 30, 2021	40,000	68,228	1.71
July 31, 2021	40,000	55,658	1.39
August 31, 2021	40,000	62,301	1.56
	<u>320,000</u>	<u>522,808</u>	<u>1.63</u>

During the year ended December 31, 2020, the Company recorded an expense of \$407,494 based on a weighted average valuation of \$0.85 per warrant.

Grant Date	Warrants Granted	Expense Recorded	Valuation Per Warrant
January 31, 2020	40,000	\$ 16,503	\$ 0.41
February 29, 2020	40,000	\$ 18,727	\$ 0.47
March 31, 2020	40,000	\$ 8,769	\$ 0.22
April 30, 2020	40,000	\$ 25,412	\$ 0.64
May 31, 2020	40,000	\$ 33,388	\$ 0.83
June 30, 2020	40,000	\$ 36,681	\$ 0.92
July 31, 2020	40,000	\$ 29,587	\$ 0.74
August 31, 2020	40,000	\$ 46,744	\$ 1.17
September 30, 2020	40,000	\$ 43,229	\$ 1.08
October 31, 2020	40,000	\$ 37,414	\$ 0.94
November 30, 2020	40,000	\$ 45,883	\$ 1.15
December 31, 2020	40,000	\$ 65,157	\$ 1.63
	480,000	\$ 407,494	\$ 0.85

The expense recorded related to warrants in 2021 and 2020 are included in the line Operating expenses within the Consolidated Statement of Operations.

The following table summarizes information about outstanding stock warrants as of December 31, 2021, all of which are exercisable:

Exercise Price	Common Stock Warrants Outstanding	Series 2 Preferred Stock Warrants Outstanding	Weighted Average Remaining Contractual Life
\$ 1.25	1,055,184		2 years
\$ 1.25	160,000		1 year
\$ 1.34	40,000		1 year
\$ 1.40	40,000		1 year
\$ 1.54	40,000		1 year
\$ 1.62	40,000		1 year
\$ 1.68	40,000		3 years
\$ 1.69	40,000		1 year
\$ 1.74	40,000		1 year
\$ 1.76	40,000		1 year
\$ 1.91	40,000		1 year
\$ 1.95	40,000		3 years
\$ 2.00	40,000		1 year
\$ 2.01	40,000		1 year
\$ 2.08	40,000		3 years
\$ 2.45	40,000		1 year
\$ 2.53	40,000		1 year
\$ 2.57	40,000		3 years
\$ 2.70	40,000		4 years
\$ 2.78	40,000		1 year
\$ 2.79	40,000		4 years
\$ 2.89	40,000		4 years
\$ 2.93	40,000		1 year
\$ 2.97	40,000		4 years
\$ 3.09	40,000		4 years
\$ 3.17	40,000		4 years
\$ 3.19	40,000		4 years
\$ 3.27	40,000		4 years
\$ 1,250		439*	1 year
	2,255,184	439	

(*) At December 31, 2021, these warrants were convertible into 116,903 shares of common stock

8. STOCK OPTIONS

On April 26, 2018 at the Company's annual meeting, the Company's stockholders approved the FlexShopper, Inc. 2018 Omnibus Equity Compensation Plan (the "2018 Plan"). Upon the 2018 Plan's approval, approximately 1,057,000 shares of Company common stock were available for issuance thereunder. The 2018 Plan replaced the Prior Plans. No new awards will be granted under the Prior Plans; however, awards outstanding under the Prior Plans upon approval of the 2018 Plan remain subject to and will be settled with shares under the applicable Prior Plan.

On February 21, 2019, the Company's Board of Directors approved Amendment No. 1 to the 2018 Plan, subject to stockholder approval. On May 2, 2019, the Company's stockholders approved the 2018 Plan Amendment that increased (a) the total number of shares available for issuance under the 2018 Plan by 1,000,000 shares and (b) the number of shares available for issuance as "incentive stock options" within the meaning of Internal Revenue Code Section 422 by 1,000,000 shares.

On April 24, 2020, the Company's Board of Directors approved an Amendment No. 2 to the 2018 Plan, subject to stockholder approval. On June 10, 2020, the Company's stockholders approved the 2018 Plan Amendment that increased (a) the total number of shares available for issuance under the 2018 Plan by 1,000,000 shares and (b) the number of shares available for issuance as "incentive stock options" within the meaning of Internal Revenue Code Section 422 by 1,000,000 shares.

On March 3, 2021, the Company's Board of Directors approved an Amendment No. 3 to the 2018 Plan, subject to stockholder approval. On June 9, 2021, the Company's stockholders approved the 2018 Plan Amendment that increased (a) the total number of shares available for issuance under the 2018 Plan by 2,000,000 shares and (b) the number of shares available for issuance as "incentive stock options" within the meaning of Internal Revenue Code Section 422 by 2,000,000 shares.

Grants under the 2018 Plan and the Prior Plans consist of incentive stock options, non-qualified stock options, stock appreciation rights, stock awards, stock unit awards, dividend equivalents and other stock-based awards. Employees, directors and consultants and other service providers are eligible to participate in the 2018 Plan and the Prior Plans. Options granted under the 2018 Plan and the Prior Plans vest over periods ranging from immediately upon grant to a five-year period and expire ten years from date of grant.

As of December 31, 2021, approximately 2,457,000 shares remained available for issuance under the 2018 Plan.

Activity in stock options for the year ended December 31, 2021 and December 31, 2020 was as follows:

	Number of options	Weighted average exercise price	Weighted average contractual term (years)	Aggregate intrinsic value
Outstanding at January 1, 2021	2,595,700	\$ 1.92		\$ 2,491,026
Granted	626,238	2.52		74,482
Exercise	(82,333)	0.83		151,544
Forfeited	(58,701)	2.65		58,285
Outstanding at December 31, 2021	<u>3,080,904</u>	<u>\$ 2.06</u>	<u>6.7</u>	<u>\$ 1,923,642</u>
Vested and exercisable at December 31, 2021	2,307,571	\$ 2.04	6.9	\$ 1,674,967
Outstanding at January 1, 2020	2,004,318	\$ 1.72		\$ 2,542,361
Granted	860,465	2.38		
Exercised	(7,166)	0.79		6,523
Forfeited	(261,917)	1.90		134,070
Outstanding at December 31, 2020	<u>2,595,700</u>	<u>\$ 1.92</u>	<u>7.60</u>	<u>\$ 2,491,026</u>
Vested and exercisable at December 31, 2020	1,730,198	\$ 1.90	7.82	\$ 1,967,071

The weighted average grant date fair value of options granted during twelve-month period ended December 31, 2021 and December 31, 2020 was \$1.75 and \$1.47 per share respectively. 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 weighted average assumptions:

	<u>2021</u>	<u>2020</u>
Exercise price	\$ 2.52	\$ 2.38
Expected life	5 years	5 years
Expected volatility	91.2%	76%
Dividend yield	0%	0%
Risk-free interest rate	0.57%	1.07%

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

The fair value of stock options is recognized as compensation expense by the straight-line method over the vesting period. Compensation expense recorded was \$1,125,819 and \$981,261 for the year ended December 31, 2021 and December 31, 2020, respectively. Unrecognized compensation cost related to non-vested options at December 31, 2021 amounted to approximately \$802,271, which is expected to be recognized over a weighted average period of 2.8 years.

9. INCOME TAXES

Reconciliation of the benefit for income taxes from continuing operations recorded in the consolidated statements of operations with the amounts computed at the statutory federal tax rates for each year:

	<u>2021</u>	<u>2020</u>
Federal tax at statutory rate	\$ 852,198	\$ 67,862
State tax, net of federal tax	(487,093)	29,866
Permanent differences	(259,967)	126,301
Change in statutory rate	59,168	(69,835)
Change in valuation allowance	614,112	522,738
Other	6,892	(13,882)
Expense for income taxes	<u>\$ 785,310</u>	<u>\$ 663,050</u>

Tax affected components of deferred tax assets and deferred tax liabilities at December 31, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Deferred tax assets (liabilities):		
Equity based compensation	\$ 479,956	\$ 368,000
Allowance for doubtful accounts	6,847,189	5,527,000
Fixed assets	(8,085,957)	256,000
Lease impairment	423,022	587,000
Lease Liability	481,312	526,000
Right of use asset	(383,924)	(425,000)
Tax credit carryforward	32,394	32,000
Federal loss carry-forwards	11,838,840	4,779,000
State loss carry forward	343,914	161,000
Other	(53,414)	(6,000)
Gross deferred tax	<u>11,923,332</u>	<u>11,805,000</u>
Valuation allowance	(12,418,498)	(11,805,000)
Net deferred tax liability	<u>\$ (495,166)</u>	<u>\$ -</u>

Based on consideration of the available evidence, including historical losses, a valuation allowance has been recognized to offset certain deferred tax assets, as management was unable to conclude that realization of deferred tax assets were more likely than not.

As of December 31, 2021, the Company has federal and state net operating loss carryforwards of approximately \$56,375,431 and \$4,878,909, respectively, available to offset future income. Our federal loss carryforwards do not expire.

The components of income tax expense (benefits) for the years ended December 31, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Current Income Tax:		
Federal	\$ -	\$ -
State	290,144	663,050
Deferred Income Tax:		
Federal	495,166	-
State	-	-
	<u>\$ 785,310</u>	<u>\$ 663,050</u>

The Company's effective tax rate for the year ended December 31, 2021 and 2020 differs from the statutory rate of 21% primarily due to a valuation allowance applied against the Company's net deferred tax assets. State taxes and permanent differences also impacted the effective tax rate. The Company accrued a \$290,144 current state income tax expense for the year ended December 31, 2021 for certain states in which taxable income exceeded available net operating loss carryforwards.

The Company files tax returns in the U.S. federal jurisdiction and various states. At December 31, 2021, federal tax returns remained open for Internal Revenue Service review for tax years after 2017, while state tax returns remain open for review by state taxing authorities for tax years after 2017. The IRS can examine net operating loss carryforwards from earlier years the extent utilized in years after 2017. During 2019, the Company was notified that its 2017 federal income tax return was selected for examination. In the second quarter of 2021, the IRS completed their review with no changes to the reported tax. There were no other federal or state income tax audits being conducted as of December 31, 2021.

The Company completed its analysis and review of all tax positions taken through December 31, 2021 and does not believe that there are any unrecognized tax benefits related to tax positions taken on its income tax returns.

10. EXCHANGE OFFER OF WARRANTS

On February 4, 2020, the Company completed an exchange offer relating to its outstanding public warrants, in which the holders of the public warrants were offered 0.62 shares of common stock for each outstanding warrant tendered (the "Warrant Exchange Offer").

In total, 5,351,290 warrants were exchanged for 3,317,812 shares of common stock in accordance with the Warrant Exchange Offer.

On February 19, 2020, the Company exchanged all remaining untendered public warrants for common stock at a rate of 0.56 shares per public warrant in accordance with the terms of the Warrant Agreement (the “Mandatory Conversion of Warrants”). In total 258,610 warrants were exchanged for 144,871 shares in this transaction.

As a result of these transactions, the Company recognized in the year ended December 31, 2020 a deemed dividend of \$713,212 resulting from the excess of the fair value of the common stock over the intrinsic value of the warrants.

11. CONTINGENCIES AND OTHER UNCERTAINTIES

Regulatory inquiries

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

COVID-19

The extent of the impact and effects of the recent outbreak of the coronavirus (COVID-19) on the operation and financial performance of our business will depend on future developments, including the duration and spread of the outbreak, the recovery time of the disrupted supply chains, or the uncertainty with respect to the accessibility of additional liquidity or capital markets, all of which are highly uncertain and cannot be predicted. If the demand for the Company’s leases is impacted by this outbreak for an extended period, our results of operations may be materially adversely affected.

12. PROMISSORY NOTE- PAYCHECK PROTECTION PROGRAM

FlexShopper, LLC (the “Borrower”) applied for and received a loan (the “Loan”) on May 4, 2020, from Customers Bank (the “Lender”) in the principal amount of \$1,914,100, pursuant to the Paycheck Protection Program (the “PPP”) under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), which was enacted March 27, 2020, and administered through the U.S. Small Business Administration.

The Loan was evidenced by a promissory note (the “Note”), dated April 30, 2020, issued by the Borrower to the Lender. The Note matured on April 30, 2022, and bore interest at the rate of 1.00% per annum, payable monthly commencing on November 30, 2020, following an initial deferral period as specified under the PPP. The Note might be prepaid by the Borrower at any time prior to maturity with no prepayment penalty. Proceeds from the Loan were available to the Borrower to fund designated expenses, including certain payroll costs, group health care benefits and other permitted expenses, in accordance with the PPP. Under the terms of the PPP, up to the entire sum of the principal amount and accrued interest might be forgiven to the extent the Loan proceeds were used for qualifying expenses as described in the CARES Act and applicable implementing guidance issued by the U.S. Small Business Administration under the PPP.

On June 21, 2021 we were notified that effective April 7, 2021, the U.S. Small Business Administration confirmed the waiver of FlexShopper’s repayment of a \$1,914,000 Paycheck Protection Program promissory note issued to the Company on May 4, 2020.

As a result of the PPP promissory note forgiveness, the Company recognized in the year ended December 31, 2021 a gain from the extinguishment of the loan, including accrued interest, of \$1,931,825.

13. SUBSEQUENT EVENTS

Promissory Notes- Related Parties

FlexShopper, LLC, previously entered into a commitment letter agreement with NRNS Capital Holdings LLC (“NRNS”) pursuant to which FlexShopper LLC issued a subordinated promissory note to NRNS (the “NRNS Note”) (See Note 5). On February 2, 2022, FlexShopper, LLC executed an amendment to the NRNS Note. This amendment extended the maturity date from April 1, 2022 to July 1, 2024 and increased the credit commitment from \$3,750,000 (the principal amount which was outstanding as of December 31, 2021) to \$11,000,000. No other changes were made to the NRNS Note.

Loan Payable Under Credit Agreement

On March 6, 2015, the Company, through a wholly-owned subsidiary (the “Borrower”), entered into a credit agreement (as amended and supplemented from time to time, the “Credit Agreement”) with Wells Fargo Bank, National Association, as paying agent, various lenders from time to time party thereto, and WE 2014-1, LLC, an affiliate of Waterfall Asset Management, LLC, as administrative agent and lender. See Note 6

On March 8, 2022, pursuant to Amendment No. 15 to Credit Agreement, the Commitment Amount was increased to be up to \$82,500,000. The incremental increase in the Commitment Amount was provided by WE 2022-1, LLC, as an additional lender under the Credit Agreement. WE 2022-1, LLC is an affiliate of Waterfall Asset Management, LLC. No other changes were made to the Credit Agreement.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None

Item 9.A. Controls and Procedures.

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), our management, including our principal executive officer and principal financial officer, conducted an evaluation as of the end of the period covered by this report, of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act. Based on that evaluation, our principal executive officer and principal financial officer have concluded that these disclosure controls and procedures were effective as of December 31, 2021 to provide reasonable assurance that information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in Securities and Exchange Commission rules and forms and that material information relating to the Company is accumulated and communicated to management, including our principal executive officer and our principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Report of Management on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rule 13a-15(f) of the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance to the Company’s management and Board of Directors regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes those policies and procedures that: maintain records that in reasonable detail accurately and fairly reflect our transactions and dispositions of assets; provide reasonable assurance that transactions are recorded as necessary for preparation of our consolidated financial statements in accordance with generally accepted accounting principles; provide reasonable assurance that our receipts and expenditures are made only in accordance with authorizations of management and directors of the Company; and provide reasonable assurance that unauthorized acquisition, use or disposition of Company assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our consolidated financial statements would be prevented or detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Therefore, even those systems determined to be effective can only provide reasonable assurance with respect to financial statement preparation and presentation.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company’s internal control over financial reporting was effective as of December 31, 2021. There were no changes in our internal control over financial reporting during the quarter ended December 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Our independent auditors have not audited and are not required to audit this assessment of our internal control over financial reporting for the fiscal year ended December 31, 2021.

Item 9B. Other Information.

None

Item 9C. Disclosure Regarding Foreign Jurisdiction that Prevent Inspections.

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required under this item is incorporated by reference to the following sections of our proxy statement for our 2022 Annual Meeting of Stockholders: “Information Concerning Directors and Nominees for Director,” “Information Concerning Executive Officers,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Corporate Governance Principles and Board Matters,” and “The Board of Directors and Its Committees.”

Item 11. Executive Compensation.

The information required under this item is incorporated by reference to the following sections of our proxy statement for our 2022 Annual Meeting of Stockholders: “Compensation and Other Information Concerning Directors and Officers” and “The Board of Directors and Its Committees.”

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required under this item is incorporated by reference to the following sections of our proxy statement for our 2022 Annual Meeting of Stockholders: “Equity Compensation Plan Table” and “Securities Ownership of Certain Beneficial Owners and Management.”

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required under this item is incorporated by reference to the following sections of our proxy statement for our 2022 Annual Meeting of Stockholders: “Certain Relationships and Related Transactions” and “Corporate Governance Principles and Board Matters.”

Item 14. Principal Accounting Fees and Services.

The information required under this item is incorporated by reference to the following sections of our proxy statement for our 2022 Annual Meeting of Stockholders: “Proposal 4—Ratification of Appointment of Independent Registered Public Accounting Firm.”

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) The following documents are filed as part of this Form 10-K:

(1) Financial Statements: see “Consolidated Financial Statements” at Item 8 and incorporated herein by reference.

(2) Financial Statement Schedules: Schedules to the Financial Statements have been omitted because the information required to be set forth therein is not applicable or is shown in the accompanying Financial Statements or notes thereto.

(3) Exhibits: The following is a list of exhibits filed as a part of this Annual Report:

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 filed on March 8, 2018 and incorporated herein by reference)
3.2	Amended and Restated Bylaws (previously filed as Exhibit 3.2 to the Company’s Annual Report on Form 10-K filed on March 11, 2019 and incorporated herein by reference)
3.3	Certificate of Amendment to the Certificate of Incorporation of the Company (previously filed as Exhibit 3.1 to the Company’s Current Report on Form 8-K filed on September 21, 2018 and incorporated herein by reference)
3.4	Certificate of Amendment to the Certificate of Incorporation of the Company (previously filed as Exhibit 3.4 to the Company’s Quarterly Report on Form 10-Q filed on November 5, 2018 and incorporated herein by reference)
3.5	Certificate of Designations 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)
3.6	Certificate of Decrease of the Number of Authorized Shares of Preferred Stock of FlexShopper, Inc. Designated as Series 1 Preferred Stock (previously filed as Exhibit 4.6 to the Company’s Quarterly Report on Form 10-Q filed on November 14, 2017 and incorporated herein by reference)
3.7	Certificate of Designations for Series 2 Convertible Preferred Stock (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)
4.1	Description of the FlexShopper, Inc. Securities Registered under Section 12 of the Securities Exchange Act (previously filed as Exhibit 4.8 to the Company’s Annual Report on Form 10-K filed on March 3, 2020 and incorporated herein by reference)
10.1	Credit Agreement, dated as of March 6, 2015, by and among FlexShopper 2, LLC, Wells Fargo Bank, N.A., various Lenders from time to time party thereto and WE 2014-1, LLC (previously filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on March 12, 2015 and incorporated herein by reference)

- 10.2 [Investor Rights Agreement, dated as of March 6, 2015, by and among the Company, the Management Stockholders and affiliates of Waterfall \(previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on March 12, 2015 and incorporated herein by reference\)](#)
- 10.3 [Form of Investor Rights Agreement, dated as of March 6, 2015, by and among the Company and the Investors party thereto \(previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on March 12, 2015 and incorporated herein by reference\)](#)
- 10.4 [Amendment No. 1 to the Credit Agreement, dated November 6, 2015, by and among FlexShopper 2, LLC and WE2014-1, LLC \(previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 12, 2015 and incorporated herein by reference\)](#)
- 10.5 [Amendment No. 2 to the Credit Agreement, dated November 6, 2015, by and among FlexShopper 2, LLC and WE2014-1, LLC \(previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on November 12, 2015 and incorporated herein by reference\)](#)
- 10.6+ [Executive Employment Agreement, dated December 1, 2015, by and between the Company and Russ Heiser \(previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 7, 2015 and incorporated herein by reference\)](#)
- 10.7 [Amendment No. 3 to the Credit Agreement, Consent and Temporary Waiver, dated February 11, 2016, by and among FlexShopper 2, LLC and WE-2014-1, LLC \(previously filed as Exhibit 10.12 to the Company's Annual Report on Form 10-K filed on March 30, 2016 and incorporated herein by reference\)](#)
- 10.8+ [2007 Omnibus Equity Compensation Plan \(previously filed as Exhibit 99.1 to the Company's General Form of Registration on Form 10-SB filed on April 30, 2007 and incorporated herein by reference\)](#)
- 10.9+ [Form of Non-Qualified Stock Option Grant issuable under 2007 Omnibus Equity Compensation Plan \(previously filed as Exhibit 99.2 to the Company's General Form of Registration on Form 10-SB filed on April 30, 2007 and incorporated herein by reference\)](#)
- 10.10+ [Amendment to 2007 Omnibus Equity Compensation Plan \(previously filed as Exhibit 99.3 to the Company's Annual Report on Form 10-K filed on March 29, 2012 and incorporated herein by reference\)](#)
- 10.11+ [2015 Omnibus Equity Compensation Plan \(previously filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed on September 21, 2015 and incorporated herein by reference\)](#)
- 10.12+ [Form of Stock Option Agreement issuable under 2015 Omnibus Equity Compensation Plan \(previously filed as Exhibit 10.18 to the Company's Annual Report on Form 10-K filed on March 30, 2016 and incorporated herein by reference\)](#)
- 10.13 [Amendment No. 4 to the Credit Agreement and Waiver, dated March 29, 2016, by and among FlexShopper 2, LLC and WE-2014-1, LLC \(previously filed as Exhibit 10.19 to the Company's Annual Report on Form 10-K filed on March 30, 2016 and incorporated herein by reference\)](#)
- 10.14 [Investor Rights Agreement, dated as of June 10, 2016, by and among FlexShopper, Inc., B2 FIE V LLC and the other parties thereto \(previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 13, 2016 and incorporated herein by reference\)](#)
- 10.15 [Omnibus Amendment, dated January 27, 2017, by and among FlexShopper 2, LLC, FlexShopper, LLC and WE2014-1, LLC \(previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 31, 2017 and incorporated herein by reference\)](#)
- 10.16+ [Non-Employee Director Compensation Policy \(previously filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on August 11, 2017 and incorporated herein by reference\)](#)
- 10.17 [Letter Agreement, dated January 9, 2018, by and between FlexShopper 2, LLC and WE 2014-1, LLC \(previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 12, 2018 and incorporated herein by reference\)](#)
- 10.18 [Form of Commitment Letter and Subordinated Promissory Note issued by FlexShopper, LLC to each of Russ Heiser and NRNS Capital Holdings LLC \(previously filed as Exhibit 10.23 to the Company's Annual Report on Form 10-K filed on March 8, 2018 and incorporated herein by reference\)](#)
- 10.19+ [2018 Omnibus Equity Compensation Plan \(previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed April 30, 2018\)](#)
- 10.20 [Amendment No. 6 to Credit Agreement, dated April 3, 2018, between FlexShopper 2, LLC and WE 2014-1, LLC \(previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed April 6, 2018 and incorporated herein by reference\)](#)

- 10.21 [Amendment No. 1 to Investor Rights Agreement, dated April 3, 2018, by and among the Company, the Management Stockholders and affiliates of Waterfall \(previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed April 6, 2018 and incorporated herein by reference\)](#)
- 10.22 [Amendment No. 7 to Credit Agreement, dated July 31, 2018, between FlexShopper 2, LLC and WE 2014-1, LLC \(previously filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed August 6, 2018 and incorporated herein by reference\)](#)
- 10.23 [Amendment No. 8 to Credit Agreement, dated August 29, 2018, between FlexShopper 2, LLC and WE 2014-1, LLC \(previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed August 31, 2018 and incorporated herein by reference\)](#)
- 10.24 [Amendment No. 2 to Investor Rights Agreement, dated August 27, 2018, by and among the Company, B2 FIE V LLC and the other parties thereto \(previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed August 31, 2018 and incorporated herein by reference\)](#)
- 10.25 [Form of Amended and Restated Subordinated Promissory Note issued by FlexShopper, LLC to each of Russ Heiser and NRNS Capital Holdings LLC \(previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed August 31, 2018 and incorporated herein by reference\)](#)
- 10.26 [Amendment No. 9 to Credit Agreement, dated September 22, 2018, between FlexShopper 2, LLC and WE 2014-1, LLC \(previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 24, 2018 and incorporated herein by reference\)](#)
- 10.27 [Amendment No. 10 to Credit Agreement, dated September 24, 2018, between FlexShopper 2, LLC and WE 2014-1, LLC \(previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed October 1, 2018 and incorporated herein by reference\)](#)
- 10.28 [Amendment No. 11 to Credit Agreement, dated September 24, 2018, between FlexShopper 2, LLC and WE 2014-1, LLC \(previously filed as an exhibit to the Company's Annual Report on Form 10-K filed March 11, 2019 and incorporated herein by reference\)](#)
- 10.29 [Form of Commitment Letter and Subordinated Promissory Note, dated January 25, 2019, issued by FlexShopper, LLC to 122 Partners, LLC \(previously filed as an exhibit to the Company's Annual Report on Form 10-K filed March 11, 2019 and incorporated herein by reference\)](#)
- 10.30 [Office Lease, dated January 29, 2019, between FlexShopper, LLC and Mainstreet CV North 40, LLC \(previously filed as an exhibit to the Company's Annual Report on Form 10-K filed March 11, 2019 and incorporated herein by reference\)](#)
- 10.31 [Consulting Agreement, dated as of February 19, 2019, between the Company and XLR8 Capital Partners LLC \(previously filed as an exhibit to the Company's Annual Report on Form 10-K filed March 11, 2019 and incorporated herein by reference\)](#)
- 10.32 [Form of Commitment Letter and Subordinated Promissory Note, dated February 19, 2019, issued by FlexShopper, LLC to NRNS Capital Holdings LLC \(previously filed as an exhibit to the Company's Annual Report on Form 10-K filed March 11, 2019 and incorporated herein by reference\)](#)
- 10.33 [Amendment No. 1 to 2018 Omnibus Equity Compensation Plan \(incorporated by reference to Appendix A of the Company's definitive proxy statement for its 2019 Annual Meeting of Stockholders, filed March 25, 2019\)](#)
- 10.34 [Form of Amended and Restated Subordinated Promissory Note issued by FlexShopper, LLC to NRNS Capital Holdings LLC \(previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 28, 2019 and incorporated herein by reference\)](#)
- 10.35+ [Employment Agreement, dated September 20, 2019, between FlexShopper, Inc. and Richard House, Jr. \(previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 23, 2019 and incorporated herein by reference\)](#)
- 10.36 [Form of Warrant Amendment and Exchange Agreement, dated as of December 30, 2019, amount FlexShopper, Inc. and the Holders signatory thereto \(previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed December 30, 2019 and incorporated herein by reference\)](#)
- 10.37+ [Employment Agreement, dated January 1, 2020, by and between the Company and Harold Russell Heiser, Jr. \(previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed January 6, 2020 and incorporated herein by reference\)](#)
- 10.38 [Amendment to Consulting Agreement, dated February 19, 2019, between the Company and XLR8 Capital Partners LLC. \(previously filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on May 6, 2020 and incorporated herein by reference\).](#)
- 10.39 [Form of Commitment Letter and Promissory Note between FlexShopper, LLC and Customer Bank. \(previously filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on May 6, 2020 and incorporated herein by reference\).](#)

10.40	Amendment to Subordinated Debt Financing Letter Agreement issued by FlexShopper, LLC to 122 Partners, LLC. (previously filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on May 6, 2020 and incorporated herein by reference).
10.41	Amendment to the FlexShopper, Inc. 2018 Omnibus Equity Compensation Plan (previously filed as Appendix A to the Company's Definitive Proxy Statement filed on April 29, 2020 and incorporated herein by reference).[†]
10.42	Amendment of Consulting Agreement, dated August 30, 2020, between FlexShopper, Inc. and XLR8 Capital Partners, LLC. (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 1, 2020 and incorporated herein by reference).
10.43	Credit Agreement, dated as of March 6, 2015, among FlexShopper 2, LLC, as company, Wells Fargo Bank, National Association, as paying agent, various lenders from time to time party thereto, and WE 2014-1, LLC, as administrative agent, as conformed through Omnibus Amendment dated January 29, 2021 (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 4, 2021 and incorporated herein by reference).
10.44	Amendment No. 13 to Credit Agreement, dated February 26, 2020, between FlexShopper 2, LLC and WE 2014-1, LLC. (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 3, 2021 and incorporated herein by reference).
10.45	Amendment No. 2 to Subordinated Debt Financing Letter Agreement between FlexShopper, LLC and 122 Partners, LLC (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 25, 2021 and incorporated herein by reference).
10.46	Amendment to Subordinated Debt Financing Commitment Letter and Second Amended and Restated Subordinated Promissory Note between FlexShopper, LLC and NRNS Capital Holdings LLC (previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on March 25, 2021 and incorporated herein by reference).
10.47+	Amendment to the FlexShopper, Inc. 2018 Omnibus Equity Compensation Plan (previously filed as Appendix A to the Company's Definitive Proxy Statement filed on April 29, 2021 and incorporated herein by reference).
10.48	Amendment No. 14 to Credit Agreement, dated December 28, 2021, between FlexShopper 2, LLC and WE 2014-1, LLC. (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 28, 2021 and incorporated herein by reference).
10.49	Amendment dated February 2, 2022 to Subordinated Debt Financing Commitment Letter and Second Amended and Restated Subordinated Promissory Note between FlexShopper, LLC and NRNS Capital Holdings LLC. (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 4, 2022 and incorporated herein by reference).
10.50 +	Amended and Restated Employment Agreement, dated as of February 23, 2022, between FlexShopper, Inc. and Richard House Jr. (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 25, 2022 and incorporated herein by reference).
10.51 +	Amended and Restated Employment Agreement, dated as of February 23, 2022, between FlexShopper, Inc. and H. Russell Heiser Jr. (previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 25, 2022 and incorporated herein by reference).
10.52	Amendment No. 15 to Credit Agreement, dated as of March 8, 2022, between FlexShopper 2, LLC, as borrower, WE 2014-1, LLC, as administrative agent and lender, and WE 2022-1, LLC, as lender. (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 8, 2022 and incorporated herein by reference).
14.1	Code of Ethics for Senior Financial Officers (previously filed as Exhibit 14.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2014 and incorporated herein by reference)
21.1	Subsidiaries of the Company*
23.1	Consent of Independent Registered Public Accounting Firm*
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	Inline XBRL Instance Document.*
101.SCH	Inline XBRL Taxonomy Extension Schema Document.*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).*

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

* Filed herewith.

Item 16. Form 10-K Summary.

Not applicable

SIGNATURES

Pursuant to the requirements 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.

Dated: March 30, 2022

By: /s/ Richard House, Jr.
Richard House, Jr.
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Richard House, Jr.</u> Richard House, Jr.	Chief Executive Officer (Principal Executive Officer)	March 30, 2022
<u>/s/ H. Russell Heiser, Jr.</u> H. Russell Heiser, Jr.	Chief Financial Officer (Principal Financial and Accounting Officer)	March 30, 2022
<u>/s/ James D. Allen</u> James D. Allen	Director	March 30, 2022
<u>/s/ Howard S. Dvorkin</u> Howard S. Dvorkin	Chairman of the Board of Directors	March 30, 2022
<u>/s/ Sean Hinze</u> Sean Hinze	Director	March 30, 2022
<u>/s/ T. Scott King</u> T. Scott King	Director	March 30, 2022
<u>/s/ Thomas O. Katz</u> Thomas O. Katz	Director	March 30, 2022

Subsidiaries of Registrant

FlexShopper, LLC is a limited liability company formed under the laws of the State of Delaware in June 2013.

FlexShopper 1, LLC and FlexShopper 2, LLC are wholly-owned subsidiaries formed under the laws of the State of Delaware in the first quarter of 2015.

FlexLending, LLC, is a limited liability company organized under the laws of Delaware in 2019.

FlexRetail LLC, is a limited liability company formed under the laws of Florida in October 2021.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements of FlexShopper, Inc. on Form S-3 (No. 333-226823) and Form S-8 (Nos. 333-203509, 333-210487 and 333-225222) of our report dated March 30, 2022, on our audits of the financial statements as of December 31, 2021 and 2020, and for each of the years then ended, which report is included in this Annual Report on Form 10-K to be filed on or about March 30, 2022.

/s/ EisnerAmper LLP

EISNERAMPER LLP
Iselin, New Jersey
March 30, 2022

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Richard House, Jr., certify that:

1. I have reviewed this annual report on Form 10-K 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;
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth 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 registrant's board of directors:
 - 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: March 30, 2022

/s/ Richard House, Jr.

Richard House, Jr.
Principal Executive Officer

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Russ Heiser, certify that:

1. I have reviewed this annual report on Form 10-K 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;
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth 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 registrant's board of directors:
 - 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: March 30, 2022

/s/ Russ Heiser

Russ Heiser

Principal Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350**

In connection with the Annual Report of FlexShopper Inc. (the “registrant”) on Form 10-K for the year ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “report”), I, Richard House, Jr., Chief Executive Officer of the registrant, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

March 30, 2022

/s/ Richard House, Jr.

Richard House, Jr.
Principal Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350**

In connection with the Annual Report of FlexShopper Inc. (the “registrant”) on Form 10-K for the year ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “report”), I, Russ Heiser, Chief Financial Officer of the registrant, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

March 30, 2022

/s/ Russ Heiser

Russ Heiser

Principal Financial Officer

