MARLIN BUSINESS SERVICES CORP
Form 10-Q
October 31, 2016
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2016

Commission file number 000-50448

MARLIN BUSINESS SERVICES CORP.

(Exact name of registrant as specified in its charter)

Pennsylvania **(State of incorporation)**	**38-3686388** **(I.R.S. Employer** **Identification Number)**

300 Fellowship Road, Mount Laurel, NJ 08054

(Address of principal executive offices)

(Zip code)

(888) 479-9111

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes No

At October 25, 2016, 12,564,606 shares of Registrant s common stock, $.01 par value, were outstanding.

Table of Contents

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES

Quarterly Report on Form 10-Q

for the Quarter Ended September 30, 2016

TABLE OF CONTENTS

		Page No.
Part I Financial Information		3
Item 1	Condensed Consolidated Financial Statements (Unaudited)	3
	Condensed Consolidated Balance Sheets at September 30, 2016 and December 31, 2015	3
	Condensed Consolidated Statements of Operations for the three-and nine- month periods ended September 30, 2016 and 2015	4
	Condensed Consolidated Statements of Comprehensive Income for the three-and nine-month periods ended September 30, 2016 and 2015	5
	Condensed Consolidated Statements of Stockholders Equity for the nine-month period ended September 30, 2016 and the year ended December 31, 2015	6
	Condensed Consolidated Statements of Cash Flows for the nine-month periods ended September 30, 2016 and 2015	7
	Notes to Unaudited Condensed Consolidated Financial Statements	8
Item 2	Management s Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3	Quantitative and Qualitative Disclosures about Market Risk	53
Item 4	Controls and Procedures	53
Part II Other Information		53
Item 1	Legal Proceedings	53
Item 1A	Risk Factors	53
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	54
Item 3	Defaults upon Senior Securities	54
Item 4	Mine Safety Disclosures	54
Item 5	Other Information	54
Item 6	Exhibits	55
Signatures		56
Certifications		

Table of Contents

PART I. Financial Information

Item 1. Condensed Consolidated Financial Statements

MARLIN BUSINESS SERVICES CORP.

AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Unaudited)

	September 30, 2016	December 31, 2015
	(Dollars in thousands, except per-share data)	
ASSETS		
Cash and due from banks	$ 3,850	$ 4,946
Interest-earning deposits with banks	73,775	55,183
Total cash and cash equivalents	77,625	60,129
Time deposits with banks	9,107	7,368
Restricted interest-earning deposits with banks		216
Securities available for sale (amortized cost of $6.1 million and $6.6 million at September 30, 2016 and December 31, 2015, respectively)	6,075	6,399
Net investment in leases and loans:		
Net investment in leases and loans, excluding allowance for credit losses	769,495	690,845
Allowance for credit losses	(10,073)	(8,413)
Total net investment in leases and loans	759,422	682,432
Property and equipment, net	3,624	3,872
Property tax receivables	5,415	47
Other assets	7,733	12,521
Total assets	$ 869,001	$ 772,984
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits	$ 676,920	$ 587,940
Other liabilities:		
Sales and property taxes payable	5,137	2,686
Accounts payable and accrued expenses	13,814	15,371
Net deferred income tax liability	14,462	16,849
Total liabilities	710,333	622,846

Commitments and contingencies (Note 6)		
Stockholders equity:		
Preferred Stock, $0.01 par value; 5,000,000 shares authorized; none issued		
Common Stock, $0.01 par value; 75,000,000 shares authorized; 12,564,761 and 12,410,899 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	126	124
Additional paid-in capital	82,892	81,703
Stock subscription receivable	(2)	(2)
Accumulated other comprehensive loss	(5)	(129)
Retained earnings	75,657	68,442
Total stockholders equity	158,668	150,138
Total liabilities and stockholders equity	$ 869,001	$ 772,984

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

Table of Contents

MARLIN BUSINESS SERVICES CORP.

AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Dollars in thousands, except per-share data)			
Interest income	$ 18,803	$ 16,690	$ 54,521	$ 49,665
Fee income	3,944	3,915	11,747	11,762
Interest and fee income	22,747	20,605	66,268	61,427
Interest expense	2,055	1,433	5,604	4,087
Net interest and fee income	20,692	19,172	60,664	57,340
Provision for credit losses	3,137	1,986	8,880	7,542
Net interest and fee income after provision for credit losses	17,555	17,186	51,784	49,798
Other income:				
Insurance premiums written and earned	1,567	1,470	4,759	4,294
Other income	1,065	572	2,013	1,336
Other income	2,632	2,042	6,772	5,630
Other expense:				
Salaries and benefits	7,817	7,058	23,829	21,290
General and administrative	4,980	4,357	14,073	12,780
Financing related costs	17	34	85	184
Other expenses	12,814	11,449	37,987	34,254
Income before income taxes	7,373	7,779	20,569	21,174
Income tax expense	3,028	2,982	8,105	8,173
Net income	$ 4,345	$ 4,797	$ 12,464	$ 13,001
Basic earnings per share	$ 0.35	$ 0.38	$ 1.00	$ 1.01
Diluted earnings per share	$ 0.35	$ 0.38	$ 1.00	$ 1.01
Cash dividends declared per share	$ 0.14	$ 2.14	$ 0.42	$ 2.39

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

-4-

Table of Contents

MARLIN BUSINESS SERVICES CORP.

AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Dollars in thousands)			
Net income	$ 4,345	$ 4,797	$ 12,464	$ 13,001
Other comprehensive income (loss):				
Increase (decrease) in fair value of securities available for sale	28	78	200	(15)
Tax effect	(11)	(30)	(76)	5
Total other comprehensive income (loss)	17	48	124	(10)
Comprehensive income	$ 4,362	$ 4,845	$ 12,588	$ 12,991

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

Table of Contents

MARLIN BUSINESS SERVICES CORP.

AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders Equity

(Unaudited)

	Common Shares	Common Stock Amount	Additional Paid-In Capital	Stock Subscription Receivable	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders Equity
			(Dollars in thousands)				
Balance, December 31, 2014	12,838,449	$ 128	$ 89,130	$ (2)	$ (17)	$ 84,725	$ 173,964
Issuance of common stock	14,929		234				234
Repurchase of common stock	(659,903)	(7)	(11,313)				(11,320)
Exercise of stock options	61,937	1	585				586
Excess tax benefits from stock-based payment arrangements			333				333
Stock option compensation recognized			108				108
Restricted stock grant, net of forfeitures	155,487	2	(2)				
Restricted stock compensation recognized			2,628				2,628
Net change in unrealized gain/loss on securities available for sale, net of tax					(112)		(112)
Net income						15,966	15,966
Cash dividends declared						(32,249)	(32,249)
Balance, December 31, 2015	12,410,899	$ 124	$ 81,703	$ (2)	$ (129)	$ 68,442	$ 150,138
Issuance of common stock	7,981		122				122
Repurchase of common stock	(22,673)		(330)				(330)
Exercise of stock options	6,880		71				71
(Deficit) tax benefits from stock-based payment arrangements			(86)				(86)
Restricted stock grant, net of forfeitures	161,674	2	(2)				
Restricted stock compensation recognized			1,414				1,414
Net change in unrealized gain/loss on securities					124		124

available for sale, net of tax							
Net income						12,464	12,464
Cash dividends declared						(5,249)	(5,249)
Balance, September 30, 2016	12,564,761	$ 126	$ 82,892	$ (2)	$ (5)	$ 75,657	$ 158,668

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

Table of Contents

MARLIN BUSINESS SERVICES CORP.

AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	$ 12,464	$ 13,001
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,360	1,214
Stock-based compensation	1,414	1,548
Excess tax (benefits) deficit from stock-based payment arrangements	86	(323)
Provision for credit losses	8,880	7,542
Net deferred income taxes	(2,482)	(1,975)
Amortization of deferred initial direct costs and fees	6,275	5,575
Deferred initial direct costs and fees	(8,539)	(6,150)
Loss on equipment disposed	574	300
Gain on leases sold	(198)	
Leases originated for sale	(625)	
Proceeds from sale of leases	6,775	
Effect of changes in other operating items:		
Other assets	(962)	521
Other liabilities	898	2,011
Net cash provided by operating activities	25,920	23,264
Cash flows from investing activities:		
Net change in time deposits with banks	(1,739)	(7,368)
Purchases of equipment for direct financing lease contracts and funds used to originate loans	(357,686)	(276,915)
Principal collections on leases and loans	265,450	237,671
Security deposits collected, net of refunds	(549)	(281)
Proceeds from the sale of equipment	2,651	2,512
Acquisitions of property and equipment	(800)	(2,127)
Change in restricted interest-earning deposits with banks	216	322
Purchases of securities available for sale, net	525	(341)
Net cash (used in) investing activities	(91,932)	(46,527)
Cash flows from financing activities:		

Net change in deposits		88,980		29,506
Issuances of common stock		122		121
Repurchases of common stock		(330)		(7,706)
Dividends paid		(5,249)		(5,005)
Exercise of stock options		71		586
Excess tax benefits (deficit) from stock-based payment arrangements		(86)		323
Net cash provided by financing activities		83,508		17,825
Net (decrease) increase in total cash and cash equivalents		17,496		(5,438)
Total cash and cash equivalents, beginning of period		60,129		110,656
Total cash and cash equivalents, end of period	$	77,625	$	105,218
Supplemental disclosures of cash flow information:				
Cash paid for interest on deposits and borrowings	$	5,201	$	3,647
Net cash paid for income taxes	$	5,534	$	9,340

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

Table of Contents

MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 The Company

Description

Marlin Business Services Corp. (the Company) is a bank holding company and a financial holding company regulated by the Federal Reserve Board under the Bank Holding Company Act. The Company was incorporated in the Commonwealth of Pennsylvania on August 5, 2003. Through its principal operating subsidiary, Marlin Leasing Corporation (MLC), the Company provides equipment financing solutions nationwide, primarily to small and mid-sized businesses in a segment of the equipment leasing market commonly referred to in the industry as the small-ticket segment. The Company finances over 100 categories of commercial equipment important to its end user customers, including copiers, security systems, computers, telecommunications equipment and certain commercial and industrial equipment. In May 2000, we established AssuranceOne, Ltd., a Bermuda-based, wholly-owned captive insurance subsidiary (AssuranceOne), which enables us to reinsure the property insurance coverage for the equipment financed by MLC and Marlin Business Bank (MBB) for our end user customers. Effective March 12, 2008, the Company opened MBB, a commercial bank chartered by the State of Utah and a member of the Federal Reserve System. MBB serves as the Company s primary funding source through its issuance of Federal Deposit Insurance Corporation (FDIC)-insured deposits.

References to the Company, Marlin, Registrant, we, us and our herein refer to Marlin Business Services Corp wholly-owned subsidiaries, unless the context otherwise requires.

NOTE 2 Summary of Critical Accounting Policies

Basis of financial statement presentation. The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. MLC and MBB are managed together as a single business segment and are aggregated for financial reporting purposes as they exhibit similar economic characteristics, share the same leasing portfolio and have one product offering. All intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements present fairly the Company s financial position at September 30, 2016 and the results of operations for the three-and nine-month periods ended September 30, 2016 and 2015, and cash flows for the nine-month periods ended September 30, 2016 and 2015. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and note disclosures included in the Company s Form 10-K filed with the Securities and Exchange Commission (SEC) on March 4, 2016. The consolidated results of operations for the three-and nine-month periods ended September 30, 2016 and 2015 and the consolidated statements of cash flows for the nine-month periods ended September 30, 2016 and 2015 are not necessarily indicative of the results of operations or cash flows for the respective full years or any other period.

Insurance Premiums Written and Earned

Insurance premiums written and earned are recognized over the term of the policy, which is month to month. Since the policy s premiums are recognized month to month, there is no unearned premium on the Consolidated Balance Sheets as these are fully recognized through the Consolidated Statements of Operations in the month written. For all annual

and interim periods, second quarter 2016 and prior, income and expense related to insurance premiums written and earned, insurance policy fees, deferred acquisition costs, premium taxes and provision for losses and loss adjustment expenses is recorded within the Insurance premium written and earned line on the Consolidated Statement of Operations. Effective third quarter 2016 on a prospective basis, only insurance premium written and earned was recorded to that line. Effective third quarter 2016, on a prospective basis, insurance policy fees were recorded to Other income and deferred acquisition costs, premium taxes and provision for losses and loss adjustment expenses were recorded in General and administrative expense. For the years ended December 31, 2015 and 2014, insurance premiums written and earned were $5.5 million and $5.0 million, respectively. For the nine months ended September 30, 2016, insurance premiums written and earned were $4.6 million.

Table of Contents

Other Income

Other income includes various administrative transaction fees, insurance policy fees, fees received from referral of leases to third parties and gain on sale of leases, recognized as earned. Effective third quarter 2016, on a prospective basis, the insurance policy fees are recognized in the Consolidated Statements of Operations in Other income and for all previous annual and interim periods are recorded net in Insurance premiums written and earned.

Insurance Program Deferred Acquisition Costs

Deferred acquisitions costs represent the fees paid to a third-party insurance company. Effective third quarter 2016, on a prospective basis, the costs are recognized on the Consolidated Statements of Operations in General and administrative expense and for all previous annual and interim periods and were recognized net in Insurance premiums written and earned. For each of the years ended December 31, 2015, 2014 and 2013, the Company recognized deferred acquisition costs of less than $0.8 million. For the nine months ended September 30, 2016, the Company recognized $0.5 million of deferred acquisition costs. Since the policy s premiums are recognized on a month to month basis, there is no deferred acquisition costs on the Consolidated Balance Sheets as these are fully recognized through the Consolidated Statements of Operations in the month written.

Provision for Unpaid Losses and Loss Adjustment Expenses

The Company records a provision for insurance losses and loss adjustment expenses. Effective third quarter 2016, on a prospective basis, the expense was recorded in General and administrative expense on the Consolidated Statement of Operations and for all previous annual and interim periods is recorded net in Insurance premiums written and earned. The liability for losses and loss adjustment expenses includes an amount determined from loss reports and individual cases and an amount, based on historical loss experience and industry statistics, for losses incurred but not reported (IBNR). These estimates are continually reviewed and are subject to the impact of future changes in such factors as claim severity and frequency. Loss and loss expenses are paid when advised by the third-party insurance company. Outstanding losses comprise estimates of the amount of reported losses and loss expenses received from the third-party insurance company plus a provision for losses IBNR. IBNR is determined with the assistance of a third-party actuary. For each of the years ended December 31, 2015, 2014, and 2013, the Company recognized provision for unpaid losses and loss adjustment expenses of less than $0.4 million. For the nine month period ended September 30, 2016, the Company recognized provision for unpaid loss and loss adjustment expense of less than $0.5 million.

There have been no other significant changes to our Critical Accounting Policies as described in our 2015 Annual Report on Form 10-K.

Recent Accounting Pronouncements.

In August 2016, the FASB issued Accounting Standards Update 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force).* The amendments in this Update provide guidance on eight specific cash flow issues. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company will apply the amendments in this Update retrospectively to each period presented. The Company is evaluating the impact of this new requirement on the consolidated earnings, financial position and cash flows of the Company.

Table of Contents

NOTE 3 Net Investment in Leases and Loans

Net investment in leases and loans consists of the following:

	September 30, 2016	December 31, 2015
	(Dollars in thousands)	
Minimum lease payments receivable	$ 832,507	$ 761,694
Estimated residual value of equipment	26,908	27,364
Unearned lease income, net of initial direct costs and fees deferred	(111,536)	(102,358)
Security deposits	(1,659)	(2,208)
Commercial loans, net of origination costs and fees deferred		
Funding Stream	16,253	5,115
Other (1)	7,022	1,238
Total commercial loans	23,275	6,353
Allowance for credit losses	(10,073)	(8,413)
	$ 759,422	$ 682,432

(1) Other loans are comprised of loans by MBB to satisfy its obligations under the Community Reinvestment Act of 1977 and other commercial loans.

At September 30, 2016, $31.1 million in net investment in leases are pledged as collateral for the secured borrowing capacity at the Federal Reserve Discount Window.

Initial direct costs net of fees deferred were $13.1 million and $11.0 million as of September 30, 2016 and December 31, 2015, respectively. Initial direct costs are netted in unearned income and are amortized to income using the effective interest method. Origination costs net of fees deferred were $0.3 million and $0.1 million as of September 30, 2016 and December 31, 2015, respectively. Origination costs are netted in commercial loans and are amortized to income using the effective interest method. At September 30, 2016 and December 31, 2015, $22.5 million and $22.7 million, respectively, of the estimated residual value of equipment retained on our Condensed Consolidated Balance Sheets was related to copiers.

Minimum lease payments receivable under lease contracts and the amortization of unearned lease income, including initial direct costs and fees deferred, are as follows as of September 30, 2016:

	Minimum Lease Payments Receivable	Income Amortization
	(Dollars in thousands)	

Period Ending December 31,		
2016	$ 90,463	$ 17,028
2017	315,763	49,007
2018	213,328	26,904
2019	126,128	12,788
2020	66,113	4,841
Thereafter	20,712	968
	$ 832,507	$ 111,536

Table of Contents

As of September 30, 2016 and December 31, 2015, the Company maintained total finance receivables which were on a non-accrual basis of $2.0 million and $1.7 million, respectively. As of September 30, 2016, there were $0.2 million of commercial loans on a non-accrual basis. As of December 31, 2015, there were no commercial loans on a non-accrual basis. As of September 30, 2016 and December 31, 2015, the Company had total finance receivables in which the terms of the original agreements had been renegotiated in the amount of $0.4 million and $0.5 million, respectively. As of September 30, 2016, there were less than $0.1 million of commercial loans that had been renegotiated. As of December 31, 2015, there were no commercial loans that had been renegotiated. (See Note 4 for income recognition on leases and loans and additional asset quality information.)

Table of Contents

NOTE 4 Allowance for Credit Losses

In accordance with the Contingencies Topic of the FASB ASC, we maintain an allowance for credit losses at an amount sufficient to absorb losses inherent in our existing lease and loan portfolios as of the reporting dates based on our estimate of probable net credit losses.

The table which follows provides activity in the allowance for credit losses and asset quality statistics.

		Three Months Ended September 30,		Nine Months Ended September 30,		Year Ended December 31,
		2016	2015	2016	2015	2015
		(Dollars in thousands)				
Allowance for credit losses, beginning of period		$ 9,430	$ 8,567	$ 8,413	$ 8,537	$ 8,537
Charge-offs		(3,062)	(2,595)	(9,060)	(9,196)	(12,453)
Recoveries		568	630	1,840	1,705	2,334
Net charge-offs		(2,494)	(1,965)	(7,220)	(7,491)	(10,119)
Provision for credit losses		3,137	1,986	8,880	7,542	9,995
Allowance for credit losses, end of period	(1)	$ 10,073	$ 8,588	$ 10,073	$ 8,588	$ 8,413
Annualized net charge-offs to average total finance receivables	(2)	1.36%	1.23%	1.36%	1.59%	1.59%
Allowance for credit losses to total finance receivables, end of period	(2)	1.33%	1.31%	1.33%	1.31%	1.24%
Average total finance receivables	(2)	$ 732,346	$ 641,020	$ 705,879	$ 630,073	$ 636,790
Total finance receivables, end of period	(2)	$ 756,144	$ 657,143	$ 756,144	$ 657,143	$ 679,738
Delinquencies greater than 60 days past due		$ 3,885	$ 3,186	$ 3,885	$ 3,186	$ 3,163
Delinquencies greater than 60 days past due	(3)	0.45%	0.43%	0.45%	0.43%	0.41%
Allowance for credit losses to delinquent accounts greater than 60 days past due	(3)	259.28%	269.55%	259.28%	269.55%	265.98%
Non-accrual leases and loans, end of period		$ 2,022	$ 1,684	$ 2,022	$ 1,684	$ 1,677
Renegotiated leases and loans, end of period		$ 350	$ 468	$ 350	$ 468	$ 535

(1) At September 30, 2016, December 31, 2015, and September 30, 2015 the allowance for credit losses allocated to loans was $0.7 million, $0.2 million, and less than $0.1 million, respectively.

(2) Total finance receivables include net investment in direct financing leases and loans. For purposes of asset quality and allowance calculations, the effects of (i) the allowance for credit losses and (ii) initial direct costs and fees deferred are excluded.

(3) Calculated as a percent of total minimum lease payments receivable for leases and as a percent of principal outstanding for loans.

Net investments in finance receivables are generally charged-off when they are contractually past due for 120 days or more. Income recognition is discontinued on leases or loans when a default on monthly payment exists for a period of 90 days or more. Income recognition resumes when a lease or loan becomes less than 90 days delinquent. At September 30, 2016, December 31, 2015 and September 30, 2015, there were no finance receivables past due 90 days or more and still accruing.

Table of Contents

Net charge-offs for the three-month period ended September 30, 2016 were $2.5 million (1.36% of average total finance receivables on an annualized basis), compared to $2.4 million (1.38% of average total finance receivables on an annualized basis) for the three-month period ended June 30, 2016 and $2.0 million (1.23% of average total finance receivables on an annualized basis) for the three-month period ended September 30, 2015.

NOTE 5 Other Assets

Other assets are comprised of the following:

	September 30, 2016	December 31, 2015
	(Dollars in thousands)	
Accrued fees receivable	$ 2,554	$ 2,500
Prepaid expenses	1,529	2,120
Income taxes receivable		4,427
Other	3,650	3,474
	$ 7,733	$ 12,521

NOTE 6 Commitments and Contingencies

MBB is a member bank in a non-profit, multi-financial institution consortium serving as a catalyst for community development by offering flexible financing for affordable, quality housing to low- and moderate-income residents. Currently, MBB receives approximately 1.2% participation in each funded loan under the program. MBB records loans in its financial statements when they have been funded or become payable. Such loans help MBB satisfy its obligations under the Community Reinvestment Act of 1977. At September 30, 2016, MBB had an unfunded commitment of $0.9 million for this activity. Unless renewed prior to termination, MBB s one-year commitment to the consortium will expire in September 2017.

The Company is involved in legal proceedings, which include claims, litigation and suits arising in the ordinary course of business. In the opinion of management, these actions will not have a material effect on the Company s consolidated financial position, results of operations or cash flows.

As of September 30, 2016, the Company leases all nine of its office locations including its executive offices in Mt. Laurel, New Jersey, and its offices in or near Atlanta, Georgia; Philadelphia, Pennsylvania; Salt Lake City, Utah; Portsmouth, New Hampshire; Highlands Ranch, Colorado; Aurora, Colorado; Denver, Colorado; and Plymouth, Michigan. These lease commitments are accounted for as operating leases. The Company has entered into several capital leases to finance corporate property and equipment.

Table of Contents

The following is a schedule of future minimum lease payments for capital and operating leases as of September 30, 2016:

	Future Minimum Lease Payment Obligations		
Period Ending December 31,	Capital Leases	Operating Leases	Total
	(Dollars in thousands)		
2016	$ 25	$ 396	$ 421
2017	77	1,531	1,608
2018		1,472	1,472
2019		1,435	1,435
2020		687	687
Total minimum lease payments	$ 102	$ 5,521	$ 5,623
Less: amount representing interest	(3)		
Present value of minimum lease payments	$ 99		

Rent expense was $0.8 million for each of the nine-month periods ended September 30, 2016 and September 30, 2015.

NOTE 7 Deposits

MBB serves as the Company s primary funding source. MBB issues fixed-rate FDIC-insured certificates of deposit raised nationally through various brokered deposit relationships and fixed-rate FDIC-insured deposits received from direct sources. On February 23, 2014, MBB began offering FDIC-insured money market deposit accounts (the MMDA Product) through participation in a partner bank s insured savings account product. This brokered deposit product has a variable rate, no maturity date and is offered to the clients of the partner bank and recorded as a single deposit account at MBB. As of September 30, 2016, money market deposit accounts totaled $50.8 million.

As of September 30, 2016, the remaining scheduled maturities of certificates of deposits are as follows:

	Scheduled Maturities
Period Ending December 31,	(Dollars in thousands)
2016	$ 64,434
2017	238,491
2018	158,865
2019	82,659
2020	54,746
Thereafter	26,959

Total	$	626,154

Certificates of deposits issued by MBB are time deposits and are generally issued in denominations of $250,000 or less. The MMDA Product is also issued to customers in amounts less than $250,000. The FDIC insures deposits up to $250,000 per depositor. The weighted average all-in interest rate of deposits at September 30, 2016 was 1.24%.

Table of Contents

NOTE 8 Fair Value Measurements and Disclosures about the Fair Value of Financial Instruments

Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the FASB ASC establishes a framework for measuring fair value and requires certain disclosures about fair value measurements. Its provisions do not apply to fair value measurements for purposes of lease classification and measurement, which is addressed in the Leases Topic of the FASB ASC.

Fair value is defined in GAAP as the price that would be received to sell an asset or the price that would be paid to transfer a liability on the measurement date. GAAP focuses on the exit price in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. A three-level valuation hierarchy is required for disclosure of fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the measurement in its entirety.

The three levels are defined as follows:

Level 1 Inputs to the valuation are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs to the valuation may include quoted prices for similar assets and liabilities in active or inactive markets, and inputs other than quoted prices, such as interest rates and yield curves, which are observable for the asset or liability for substantially the full term of the financial instrument.

Level 3 Inputs to the valuation are unobservable and significant to the fair value measurement. Level 3 inputs shall be used to measure fair value only to the extent that observable inputs are not available.

The Company characterizes active markets as those where transaction volumes are sufficient to provide objective pricing information, such as an exchange traded price. Inactive markets are typically characterized by low transaction volumes, and price quotations that vary substantially among market participants or are not based on current information.

The Company s balances measured at fair value on a recurring basis include the following as of September 30, 2016 and December 31, 2015:

	September 30, 2016		December 31, 2015	
	Fair Value Measurements Using		Fair Value Measurements Using	
	Level 1	Level 2	Level 1	Level 2
	(Dollars in thousands)			

Assets				
Securities available for sale	$ 3,439	$ 2,636	$ 3,332	$ 3,067

At this time, the Company has not elected to report any assets or liabilities using the fair value option available under the Financial Instruments Topic of the FASB ASC. There have been no transfers between Level 1 and Level 2 of the fair value hierarchy.

Disclosures about the Fair Value of Financial Instruments

The Financial Instruments Topic of the FASB ASC requires the disclosure of the estimated fair value of financial instruments including those financial instruments not measured at fair value on a recurring basis. This requirement excludes certain instruments, such as the net investment in leases and all nonfinancial instruments.

Table of Contents

The fair values shown below have been derived, in part, by management s assumptions, the estimated amount and timing of future cash flows and estimated discount rates. Valuation techniques involve uncertainties and require assumptions and judgments regarding prepayments, credit risk and discount rates. Changes in these assumptions will result in different valuation estimates. The fair values presented would not necessarily be realized in an immediate sale. Derived fair value estimates cannot necessarily be substantiated by comparison to independent markets or to other companies fair value information.

Table of Contents

The following summarizes the carrying amount and estimated fair value of the Company s financial instruments:

	September 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Dollars in thousands)			
Financial Assets				
Cash and cash equivalents	$ 77,625	$ 77,625	$ 60,129	$ 60,129
Time deposits with banks	9,107	9,129	7,368	7,356
Restricted interest-earning deposits with banks			216	216
Loans, net of allowance	22,530	22,683	6,179	6,152
Financial Liabilities				
Deposits	$ 676,920	$ 677,476	$ 587,940	$ 586,898

The paragraphs which follow describe the methods and assumptions used in estimating the fair values of financial instruments.

Cash and Cash Equivalents

The carrying amounts of the Company s cash and cash equivalents approximate fair value as of September 30, 2016 and December 31, 2015, because they bear interest at market rates and had maturities of less than 90 days at the time of purchase. This fair value measurement is classified as Level 1.

Time Deposits with Banks

Fair value of time deposits is estimated by discounting cash flows of current rates paid by market participants for similar time deposits of the same or similar remaining maturities. This fair value measurement is classified as Level 2.

Restricted Interest-Earning Deposits with Banks

The Company maintained interest-earning trust accounts related to our secured debt facility. The book value of such accounts is included in restricted interest-earning deposits with banks on the accompanying Consolidated Balance Sheet. These accounts earned a floating market rate of interest which resulted in a fair value approximating the carrying amount at December 31, 2015. This fair value measurement is classified as Level 1.

Securities Available for Sale

Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon various sources of market pricing. Securities are classified within the fair value hierarchy after giving consideration to the activity level in the market for the security type and the observability of the inputs used to determine the fair value. When available, the Company uses quoted prices in active markets and classifies such instruments within Level 1 of the fair value hierarchy. Level 1 securities include mutual funds. When instruments are traded in secondary markets and quoted market prices do not exist for such securities, the Company relies on prices obtained from third-party pricing vendors and classifies these instruments within Level 2 of the fair value hierarchy. The third-party vendors use a variety of methods when pricing securities that incorporate relevant market data to arrive at an estimate of what a buyer in the marketplace would pay for a security under current market conditions. Level 2 securities include municipal bonds.

Table of Contents

Loans

The loan balances are comprised of three types of loans. Participating interests acquired through membership in a non-profit, multi-financial institution consortium serving as a catalyst for community development by offering financing for affordable, quality housing to low- and moderate-income residents. Such loans help MBB satisfy its obligations under the Community Reinvestment Act of 1977. The fair value of these loans approximates the carrying amount at September 30, 2016 and December 31, 2015 as it is based on recent comparable sales transactions with consideration of current market rates. This fair value measurement is classified as Level 2. The Company also invests in a small business loan product tailored to the small business market. Fair value for these loans are estimated by discounting cash flows at an imputed market rate for similar loan products with similar characteristics. This fair value measurement is classified as Level 2. The Company invests in loans to our customers in the franchise finance channel. These loans may be secured by equipment being acquired, blanket liens on personal property, or specific equipment already owned by the customer. The fair value of loans is estimated by discounting the future cash flows using the current rate at which similar loans would be made to borrowers with similar credit, collateral, and for the same remaining maturities. This fair value measurement is classified as Level 2.

Deposits

Deposit liabilities with no defined maturity such as MMDA deposits have a fair value equal to the amount payable on demand at the reporting date (i.e., their carrying amount). Fair value for certificates of deposits is estimated by discounting cash flows at current rates paid by the Company for similar certificates of deposit of the same or similar remaining maturities. This fair value measurement is classified as Level 2.

Table of Contents

NOTE 9 Earnings Per Share

The Company s restricted stock awards are paid non-forfeitable common stock dividends and thus meet the criteria of participating securities. Accordingly, EPS has been calculated using the two-class method, under which earnings are allocated to both common stock and participating securities.

Basic EPS has been computed by dividing net income allocated to common stock by the weighted average common shares used in computing basic EPS. For the computation of basic EPS, all shares of restricted stock have been deducted from the weighted average shares outstanding.

Diluted EPS has been computed by dividing net income allocated to common stock by the weighted average number of common shares used in computing basic EPS, further adjusted by including the dilutive impact of the exercise or conversion of common stock equivalents, such as stock options, into shares of common stock as if those securities were exercised or converted.

The following table provides net income and shares used in computing basic and diluted EPS:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(Dollars in thousands, except per-share data)			
Basic EPS				
Net income	$ 4,345	$ 4,797	$ 12,464	$ 13,001
Less: net income allocated to participating securities	(136)	(136)	(366)	(377)
Net income allocated to common stock	$ 4,209	$ 4,661	$ 12,098	$ 12,624
Weighted average common shares outstanding	12,543,818	12,773,653	12,507,898	12,815,679
Less: Unvested restricted stock awards considered participating securities	(397,091)	(366,886)	(373,081)	(367,876)
Adjusted weighted average common shares used in computing basic EPS	12,146,727	12,406,767	12,134,817	12,447,803
Basic EPS	$ 0.35	$ 0.38	$ 1.00	$ 1.01
Diluted EPS				
Net income allocated to common stock	$ 4,209	$ 4,661	$ 12,098	$ 12,624
Adjusted weighted average common shares used in computing basic EPS	12,146,727	12,406,767	12,134,817	12,447,803
Add: Effect of dilutive stock options	10,629	6,730	8,025	18,342
Adjusted weighted average common shares used in computing diluted EPS	12,157,356	12,413,497	12,142,842	12,466,145

Diluted EPS	$ 0.35	$ 0.38	$ 1.00	$ 1.01

For the three-month periods ended September 30, 2016 and September 30, 2015, outstanding stock-based compensation awards in the amount of 21,789 and 12,502, respectively, were considered antidilutive and therefore were not considered in the computation of potential common shares for purposes of diluted EPS.

Table of Contents

For the nine-month periods ended September 30, 2016 and September 30, 2015, outstanding stock-based compensation awards in the amount of 8,829 and 14,258, respectively, were considered antidilutive and therefore were not considered in the computation of potential common shares for purposes of diluted EPS.

NOTE 10 Stockholders Equity

Stockholders Equity

On July 29, 2014, the Company s Board of Directors approved a new stock repurchase plan to replace the 2007 Repurchase Plan (the 2014 Repurchase Plan). Under the 2014 Repurchase Plan, the Company is authorized to repurchase up to $15 million in value of its outstanding shares of common stock. This authority may be exercised from time to time and in such amounts as market conditions warrant. Any shares purchased under this plan are returned to the status of authorized but unissued shares of common stock. The repurchases may be made on the open market or in block trades. The program may be suspended or discontinued at any time. The repurchases are funded using the Company s working capital.

During the three and nine month periods ended September 30, 2016, the Company did not repurchase any of its common stock under the 2014 Repurchase Plan in the open market. During the three- and nine-month periods ended September 30, 2015, the Company purchased 196,196 shares and 406,719 shares of its common stock under the 2014 Repurchase Plan at an average cost of $15.65 and $17.22, respectively. At September 30, 2016, the Company had $3.2 million remaining in the 2014 Repurchase Plan.

In addition to the repurchases described above, participants in the Company s 2014 Equity Compensation Plan (approved by the Company s shareholders on June 3, 2014) (the 2014 Plan) may have shares withheld to cover income taxes. There were 735 and 22,673 shares repurchased to cover income tax withholding in connection with shares granted under the 2014 Plan during each of the three- and nine-month periods ended September 30, 2016, at average per-share costs of $17.98 and $14.56, respectively. There were 781 and 38,508 shares repurchased to cover income tax withholding in connection with shares granted under the 2014 Plan during the three- and nine-month periods ended September 30, 2015, at average per-share costs of $16.05 and $18.17, respectively.

Regulatory Capital Requirements

Through its issuance of FDIC-insured deposits, MBB serves as the Company s primary funding source. Over time, MBB may offer other products and services to the Company s customer base. MBB operates as a Utah state-chartered, Federal Reserve member commercial bank, insured by the FDIC. As a state-chartered Federal Reserve member bank, MBB is supervised by both the Federal Reserve Bank of San Francisco and the Utah Department of Financial Institutions.

The Company and MBB are subject to capital adequacy regulations issued jointly by the federal bank regulatory agencies. These risk-based capital and leverage guidelines make regulatory capital requirements more sensitive to differences in risk profiles among banking organizations and consider off-balance sheet exposures in determining capital adequacy. The federal bank regulatory agencies and/or the U.S. Congress may determine to increase capital requirements in the future due to the current economic environment. Under the capital adequacy regulation, at least half of a banking organization s total capital is required to be Tier 1 Capital as defined in the regulations, comprised of common equity, retained earnings and a limited amount of non-cumulative perpetual preferred stock. The remaining capital, Tier 2 Capital, as defined in the regulations, may consist of other preferred stock, a limited amount of term subordinated debt or a limited amount of the reserve for possible credit losses. The regulations establish minimum leverage ratios for banking organizations, which are calculated by dividing Tier 1 Capital by total quarterly average

assets. Recognizing that the risk-based capital standards principally address credit risk rather than interest rate, liquidity, operational or other risks, many banking organizations are expected to maintain capital in excess of the minimum standards.

On January 1, 2015, the Company and MBB became subject to new capital adequacy standards under the Basel III rules. The new standards require a minimum for Tier 1 leverage ratio of 4%. The new standards raised the required minimum Tier 1 risk-based ratio from 4% to 6%. The total risk-based capital ratio of 8% did not change. The new capital adequacy standards establish a new common equity Tier 1 risk-based capital ratio with a required 4.5% minimum (6.5% to be considered well-capitalized). The Company is required

to have a level of regulatory capital in excess of the regulatory minimum and to have a capital buffer above 0.625% for 2016. If a banking organization does not maintain capital above the minimum plus the capital conservation buffer it may be subject to restrictions on dividends, share buybacks, and certain discretionary payments such as bonus payments.

The Company plans to provide the necessary capital to maintain MBB at well-capitalized status as defined by banking regulations and as required by an agreement entered into by and among MBB, MLC, Marlin Business Services Corp. and the FDIC in conjunction with the opening of MBB (the FDIC Agreement). MBB s Tier 1 Capital balance at September 30, 2016 was $131.0 million, which met all capital requirements to which MBB is subject and qualified MBB for well-capitalized status. At September 30, 2016, the Company also exceeded its regulatory capital requirements and was considered well-capitalized as defined by federal banking regulations and as required by the FDIC Agreement.

Table of Contents

The following table sets forth the Tier 1 leverage ratio, common equity Tier 1 risk-based capital ratio, Tier 1 risk-based capital ratio and total risk-based capital ratio for Marlin Business Services Corp. and MBB at September 30, 2016.

	Actual		Minimum Capital Requirement		Well-Capitalized Capital Requirement	
	Ratio	Amount	Ratio [1]	Amount	Ratio	Amount
	(Dollars in thousands)					
Tier 1 Leverage Capital						
Marlin Business Services Corp.	18.53%	$ 158,661	4%	$ 34,258	5%	$ 42,823
Marlin Business Bank	16.05%	$ 130,982	5%	$ 40,812	5%	$ 40,812
Common Equity Tier 1 Risk-Based Capital						
Marlin Business Services Corp.	19.77%	$ 158,661	4.5%	$ 36,111	6.5%	$ 52,161
Marlin Business Bank	16.73%	$ 130,982	6.5%	$ 50,899	6.5%	$ 50,899
Tier 1 Risk-based Capital						
Marlin Business Services Corp.	19.77%	$ 158,661	6%	$ 48,148	8%	$ 64,198
Marlin Business Bank	16.73%	$ 130,982	8%	$ 62,645	8%	$ 62,645
Total Risk-based Capital						
Marlin Business Services Corp.	21.02%	$ 168,692	8%	$ 64,198	10%	$ 80,247
Marlin Business Bank	17.98%	$ 140,773	15%	$ 117,460	10%[1]	$ 78,307

(1) MBB is required to maintain well-capitalized status and must also maintain a total risk-based capital ratio greater than 15% pursuant to the FDIC Agreement.

Prompt Corrective Action. The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) requires the federal regulators to take prompt corrective action against any undercapitalized institution. Five capital categories have been established under federal banking regulations: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Well-capitalized institutions significantly exceed the required minimum level for each relevant capital measure. Adequately capitalized institutions include depository institutions that meet but do not significantly exceed the required minimum level for each relevant capital measure. Undercapitalized institutions consist of those that fail to meet the required minimum level for one or more relevant capital measures. Significantly undercapitalized characterizes depository institutions with capital levels significantly below the minimum requirements for any relevant capital measure. Critically undercapitalized refers to depository institutions with minimal capital and at serious risk for government seizure.

Under certain circumstances, a well-capitalized, adequately capitalized or undercapitalized institution may be treated as if the institution were in the next lower capital category. A depository institution is generally prohibited from making capital distributions, including paying dividends, or paying management fees to a holding company if the institution would thereafter be undercapitalized. Institutions that are adequately capitalized but not well-capitalized cannot accept, renew or roll over brokered deposits except with a waiver from the FDIC and are subject to restrictions on the interest rates that can be paid on such deposits. Undercapitalized institutions may not accept, renew or roll over brokered deposits.

The federal bank regulatory agencies are permitted or, in certain cases, required to take certain actions with respect to institutions falling within one of the three undercapitalized categories. Depending on the level of an institution s capital, the agency s corrective powers include, among other things:

- prohibiting the payment of principal and interest on subordinated debt;
- prohibiting the holding company from making distributions without prior regulatory approval;

- placing limits on asset growth and restrictions on activities;
- placing additional restrictions on transactions with affiliates;
- restricting the interest rate the institution may pay on deposits;
- prohibiting the institution from accepting deposits from correspondent banks; and
- in the most severe cases, appointing a conservator or receiver for the institution.

A banking institution that is undercapitalized is required to submit a capital restoration plan, and such a plan will not be accepted unless, among other things, the banking institution s holding company guarantees the plan up to a certain specified amount. Any such guarantee from a depository institution s holding company is entitled to a priority of payment in bankruptcy.

Pursuant to the FDIC Agreement entered into in conjunction with the opening of MBB, MBB must keep its total risk-based capital ratio above 15%. MBB s total risk-based capital ratio of 17.98% at September 30, 2016 exceeded the threshold for well capitalized status under the applicable laws and regulations, and also exceeded the 15% minimum total risk-based capital ratio required in the FDIC Agreement.

Dividends. The Federal Reserve Board has issued policy statements requiring insured banks and bank holding companies to have an established assessment process for maintaining capital commensurate with their overall risk profile. Such assessment process may affect the ability of the organizations to pay dividends. Although generally organizations may pay dividends only out of current operating earnings, dividends may be paid if the distribution is prudent relative to the organization s financial position and risk profile, after consideration of current and prospective economic conditions.

NOTE 11 Stock-Based Compensation

Under the terms of the 2014 Plan, employees, certain consultants and advisors and non-employee members of the Company s Board of Directors have the opportunity to receive incentive and nonqualified grants of stock options, stock appreciation rights, restricted stock and other equity-based awards as approved by the Company s Board of Directors. These award programs are used to attract, retain and motivate employees and to encourage individuals in key management roles to retain stock. The Company has a policy of issuing new shares to satisfy awards under the 2014 Plan. The aggregate number of shares under the 2014 Plan that may be issued pursuant to stock options, restricted stock units or restricted stock awards is 1,200,000 with not more than 1,000,000 of such shares available for issuance as restricted stock awards. There were 636,594 shares available for future awards under the 2014 Plan as of September 30, 2016, of which 436,594 shares were available to be issued as restricted stock awards.

Total stock-based compensation expense was $0.4 million for each of the three-month periods ended September 30, 2016 and September 30, 2015. Total stock-based compensation expense was $1.4 million and $1.6 million for the nine-month periods ended September 30, 2016 and September 30, 2015, respectively. An excess tax deficit from stock-based payment arrangements increased cash provided by operating activities and decreased cash provided by financing activities by $0.1 million for the nine-month period ended September 30, 2016. Excess tax benefits from stock-based payment arrangements increased cash provided by financing activities and decreased cash provided by

operating activities by $0.3 million for the nine-month periods ended September 30, 2015.

Stock Options

Option awards are generally granted with an exercise price equal to the market price of the Company s stock at the date of the grant and have 7- to 10-year contractual terms. All options issued contain service conditions based on the participant s continued service with the Company and may provide for accelerated vesting if there is a change in control as defined in the Equity Compensation Plans. Employee stock options generally vest over four years.

The Company also issues stock options to non-employee independent directors. These options generally vest in one year.

There were no stock options granted during the three-month and nine-month periods ended September 30, 2016 and September 30, 2015.

Table of Contents

A summary of option activity for the nine-month period ended September 30, 2016 follows:

Options	Number of Shares	Weighted Average Exercise Price Per Share
Outstanding, December 31, 2015	50,686	$ 12.09
Granted		
Exercised	(6,880)	10.29
Forfeited	(1,666)	12.41
Expired		
Outstanding, September 30, 2016	42,140	12.37

During each of the three-month periods ended September 30, 2016 and September 30, 2015 the Company did not recognize compensation expense related to options. During each of the nine-month periods ended September 30, 2016 and September 30, 2015 the Company did not recognize compensation expense related to options.

There were 3,425 and 4,082 stock options exercised during the three-month periods ended September 30, 2016 and September 30, 2015, respectively. The total pretax intrinsic values of stock options exercised were less than $0.1 million for each of the three-month periods ended September 30, 2016 and September 30, 2015.

The total pretax intrinsic values of stock options exercised were less than $0.1 million and $0.6 million for the nine-month periods ended September 30, 2016 and September 30, 2015, respectively.

The following table summarizes information about the stock options outstanding and exercisable as of September 30, 2016:

	Options Outstanding				*Options Exercisable*			
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (In thousands)	Number Exercisable	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (In thousands)
$12.08 - 12.41	42,140	0.6	12.37	295	39,916	0.6	12.37	280
	42,140	0.6	12.37	$ 295	39,916	0.6	12.37	$ 280

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the Company s closing stock price of $19.38 as of September 30, 2016, which would have been received by the option holders had all option holders exercised their options as of that date.

As of September 30, 2016, there was no future compensation cost related to non-vested stock options not yet recognized in the Consolidated Statements of Operations based on the most probable performance assumptions. As of September 30, 2016, $0.1 million of additional potential compensation cost related to non-vested stock options has not

been recognized due to performance targets not being achieved. However, in certain circumstances, these options may be subject to vesting prior to their expiration dates. The weighted average remaining term of these options is approximately 0.6 years.

Table of Contents

Restricted Stock Awards

Restricted stock awards provide that, during the applicable vesting periods, the shares awarded may not be sold or transferred by the participant. The vesting period for restricted stock awards generally ranges from three to 10 years. All awards issued contain service conditions based on the participant s continued service with the Company and may provide for accelerated vesting if there is a change in control as defined in the Equity Compensation Plans.

The vesting of certain restricted shares may be accelerated to a minimum of three years based on achievement of various individual performance measures. Acceleration of expense for awards based on individual performance factors occurs when the achievement of the performance criteria is determined.

In addition, the Company has issued certain shares under a Management Stock Ownership Program. Under this program, restrictions on the shares lapse at the end of 10 years but may lapse (vest) in a minimum of three years if the employee continues in service at the Company and owns a matching number of other common shares in addition to the restricted shares.

Of the total restricted stock awards granted during the nine-month period ended September 30, 2016, 74,207 shares may be subject to accelerated vesting based on individual performance factors; no shares have vesting contingent upon performance factors. Vesting was accelerated in 2015 and 2016 on certain awards based on the achievement of certain performance criteria determined annually, as described below.

The Company also issues restricted stock to non-employee independent directors. These shares generally vest in seven years from the grant date or six months following the director s termination from Board of Directors service.

The following table summarizes the activity of the non-vested restricted stock during the nine months ended September 30, 2016:

Non-vested restricted stock	Shares	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2015	313,236	$ 16.65
Granted	181,156	15.25
Vested	(60,185)	18.23
Forfeited	(19,482)	18.02
Outstanding at September 30, 2016	414,725	15.74

During each of the three-month periods ended September 30, 2016 and September 30, 2015, the Company granted restricted stock awards with grant-date fair values totaling $0.4 million. During the nine-month periods ended September 30, 2016 and September 30, 2015, the Company granted restricted stock awards with grant-date fair values totaling $2.8 million and $3.0 million, respectively.

As vesting occurs, or is deemed likely to occur, compensation expense is recognized over the requisite service period and additional paid-in capital is increased. The Company recognized $0.3 million and $0.4 of compensation expense

related to restricted stock for the three-month periods ended September 30, 2016 and September 30, 2015, respectively. The Company recognized $1.4 million and $1.6 million of compensation expense related to restricted stock for the nine-month periods ended September 30, 2016 and September 30, 2015, respectively.

Of the $1.4 million total compensation expense related to restricted stock for the nine-month period ended September 30, 2016, approximately $0.4 million related to accelerated vesting during the first quarter of 2016, based on achievement of certain performance criteria determined annually. Of the $1.6 million total compensation expense related to restricted stock for the nine-month period ended September 30, 2015, approximately $0.5 million related to accelerated vesting during the first quarter of 2015, which was also based on the achievement of certain performance criteria determined annually.

Table of Contents

As of September 30, 2016, there was $4.6 million of unrecognized compensation cost related to non-vested restricted stock compensation scheduled to be recognized over a weighted average period of 4.0 years. In the event individual performance targets are achieved, $1.5 million of the unrecognized compensation cost would accelerate to be recognized over a weighted average period of 1.3 years. In addition, certain of the awards granted may result in the issuance of 57,998 additional shares of stock if achievement of certain targets is greater than 100%. The expense related to the additional shares awarded will be dependent on the Company s stock price when the achievement level is determined.

The fair value of shares that vested during each of the three-month periods ended September 30, 2016 and September 30, 2015 was $0.1 million. The fair value of shares that vested during the nine-month periods ended September 30, 2016 and September 30, 2015 was $0.9 million and $2.2 million, respectively.

Restricted Stock Units

Restricted stock units (RSUs) are granted with vesting conditions based on fulfillment of a service condition (generally four years from the grant date), and also require achievement of certain market based targets associated with the Company s stock price. The market based target measurement period begins one year from the grant date and ends three years from the grant date. Expense for equity based awards with market and service conditions is recognized over the service period based on the grant-date fair value of the award.

The following tables summarize restricted stock unit activity for the nine-month period ended September 30, 2016:

Market-based RSUs	Number of RSUs	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2015		$
Granted	120,000	9.47
Forfeited		
Converted		
Cancelled due to non-achievement of market condition		
Outstanding at September 30, 2016	120,000	9.47

Table of Contents

In 2016, certain executives were awarded RSUs with market based vesting conditions with weighted average grant-date fair value of $9.47 per unit. The weighted average grant date fair value of these market based RSUs was estimated using a Monte Carlo simulation valuation model with the following assumptions:

	Nine Months Ended September 30,	
	2016	2015
Grant date stock price	$ 18.24	
Risk-free interest rate	1.06%	
Expected volatility	35.16%	
Dividend yield		

The risk free interest rate reflected the yield on zero coupon Treasury securities with a term approximating the expected life of the RSUs. The expected volatility was based on historical volatility of the Company s common stock.

During both the three and nine-month periods ended September 30, 2016, the Company granted RSUs with grant-date fair values totaling $1.1 million, respectively. The Company recognized less than $0.1 million of compensation expense related to RSUs for both the three and nine-month periods ended September 30, 2016, respectively. As of September 30, 2016, there was $1.1 million of unrecognized compensation cost related to RSUs scheduled to be recognized over a weighted average period of 4.0 years.

NOTE 12 Subsequent Events

The Company declared a dividend of $0.14 per share on October 27, 2016. The quarterly dividend, which is expected to result in a dividend payment of approximately $1.8 million, is scheduled to be paid on November 17, 2016 to shareholders of record on the close of business on November 7, 2016. It represents the Company s twenty-first consecutive quarterly cash dividend. The payment of future dividends will be subject to approval by the Company s Board of Directors.

Table of Contents

Item 2. Management s Discussion And Analysis Of Financial Condition And Results Of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and the related notes thereto in our Form 10-K for the year ended December 31, 2015 filed with the SEC. This discussion contains certain statements of a forward-looking nature that involve risks and uncertainties.

FORWARD-LOOKING STATEMENTS

Certain statements in this document may include the words or phrases can be, expects, plans, may, may affect, depend, believe, estimate, intend, could, should, would, if and similar words and phrases that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the 1933 Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the 1934 Act). Forward-looking statements are subject to various known and unknown risks and uncertainties and the Company cautions that any forward-looking information provided by or on its behalf is not a guarantee of future performance. Statements regarding the following subjects are forward-looking by their nature: (a) our business strategy; (b) our projected operating results; (c) our ability to obtain external deposits or financing; (d) our understanding of our competition; and (e) industry and market trends. The Company s actual results could differ materially from those anticipated by such forward-looking statements due to a number of factors, some of which are beyond the Company s control, including, without limitation:

- availability, terms and deployment of funding and capital;
- changes in our industry, interest rates, the regulatory environment or the general economy resulting in changes to our business strategy;
- the degree and nature of our competition;
- availability and retention of qualified personnel;
- general volatility of the capital markets; and
- the factors set forth in the section captioned Risk Factors in Item 1 of our Form 10-K for the year ended December 31, 2015 filed with the SEC.

Table of Contents

Forward-looking statements apply only as of the date made and the Company is not required to update forward-looking statements for subsequent or unanticipated events or circumstances.

Overview

Founded in 1997, we are a nationwide provider of equipment financing solutions, primarily to small and mid-sized businesses. We finance over 100 categories of commercial equipment important to the typical small and mid-sized business customer, including copiers, computers and software, security systems, telecommunications equipment and certain commercial and industrial equipment. We access our end user customers through origination sources comprised of our existing network of independent equipment dealers and national account programs, as well as through direct solicitation of our end user customers and through relationships with select lease brokers.

Our leases are fixed-rate transactions with terms generally ranging from 36 to 60 months. At September 30, 2016, our lease portfolio consisted of 84,335 accounts with an average original term of 48 months and average original transaction size of approximately $15,000.

During the first quarter of 2015, the Company launched Funding Stream, a new, flexible loan program of MBB. Funding Stream is tailored to the small business market to provide customers a convenient, hassle free alternative to traditional lenders and access to capital to help grow their businesses. As of September 30, 2016, the Company had approximately $16.3 million, not including the allowance for credit losses allocated to loans of $0.7 million, of small business loans on the balance sheet. Generally, these loans range from $5,000 to $100,000, have flexible 6 to 24 month terms, and have automated daily or weekly payback. Small business owners can apply online, in ten minutes or less, on www.Fundingstream.com. Approved borrowers can receive funds in as little as two days.

At September 30, 2016, we had $869.0 million in total assets. Our assets are substantially comprised of our net investment in leases and loans which totaled $759.4 million at September 30, 2016.

We generally reach our lessees through a network of independent equipment dealers and, to a much lesser extent, lease brokers. The number of dealers and brokers with whom we conduct business depends on, among other things, the number of sales account executives we have. Sales account executive staffing levels and the activity of our origination sources are shown below.

	As of or For the Nine Months Ended September 30,	As of or For the Year Ended December 31,				
	2016	2015	2014	2013	2012	2011
Number of sales account executives	136	136	115	124	114	93
Number of originating sources[1]	1,110	1,093	1,117	1,173	1,117	827

(1) Monthly average of origination sources generating lease volume

Our revenue consists of interest and fees from our leases and loans and, to a lesser extent, income from our property insurance program and other fee income. Our expenses consist of interest expense and other expenses, which include

salaries and benefits and other general and administrative expenses. As a credit lender, our earnings are also impacted by credit losses. For the quarter ended September 30, 2016, our annualized net credit losses were 1.36% of our average total finance receivables. We establish reserves for credit losses which require us to estimate inherent losses in our portfolio as of the reporting date.

Table of Contents

Our leases are classified under U.S. GAAP as direct financing leases, and we recognize interest income over the term of the lease. Direct financing leases transfer substantially all of the benefits and risks of ownership to the equipment lessee. Our net investment in direct finance leases is included in our consolidated financial statements in net investment in leases and loans. Net investment in direct financing leases consists of the sum of total minimum lease payments receivable and the estimated residual value of leased equipment, less unearned lease income. Unearned lease income consists of the excess of the total future minimum lease payments receivable plus the estimated residual value expected to be realized at the end of the lease term plus deferred net initial direct costs and fees less the cost of the related equipment. Approximately 69% of our lease portfolio at September 30, 2016 amortizes over the lease term to a $1 residual value. For the remainder of the portfolio, we must estimate end of term residual values for the leased assets. Failure to correctly estimate residual values could result in losses being realized on the disposition of the equipment at the end of the lease term.

We fund our business primarily through the issuance of fixed and variable-rate FDIC-insured deposits and money market demand accounts raised nationally by MBB. Historically, leases were funded through variable-rate facilities until they were refinanced through term note securitizations at fixed rates. All of our term note securitizations were accounted for as on-balance sheet transactions and, therefore, we did not recognize gains or losses from these transactions.

Since its opening in 2008, MBB has served as a funding source for a portion of the Company s new originations primarily through the issuance of FDIC-insured deposits. We anticipate that FDIC-insured deposits issued by MBB will continue to represent our primary source of funds for the foreseeable future. As of September 30, 2016, total MBB deposits were $676.9 million, compared to $587.9 million at December 31, 2015. We had no outstanding secured borrowings as of both September 30, 2016 and December 31, 2015.

Historically, from time to time we use derivative financial instruments to manage exposure to the effects of changes in market interest rates and to fulfill certain covenants in our borrowing arrangements. All derivatives are recorded on the Consolidated Balance Sheets at their fair value as either assets or liabilities. The Company was not a party to any derivative agreements at September 30, 2016.

Through the issuance of FDIC-insured deposits, the Company s wholly-owned subsidiary, MBB, serves as the Company s primary funding source. In the future MBB may elect to offer other products and services to the Company s customer base. As a Utah state-chartered Federal Reserve member bank, MBB is supervised by both the Federal Reserve Bank of San Francisco and the Utah Department of Financial Institutions.

On January 13, 2009, Marlin Business Services Corp. became a bank holding company and is subject to the Bank Holding Company Act and supervised by the Federal Reserve Bank of Philadelphia. On September 15, 2010, the Federal Reserve Bank of Philadelphia confirmed the effectiveness of Marlin Business Services Corp. s election to become a financial holding company (while remaining a bank holding company) pursuant to Sections 4(k) and (l) of the Bank Holding Company Act and Section 225.82 of the Federal Reserve Board s Regulation Y. Such election permits Marlin Business Services Corp. to engage in activities that are financial in nature or incidental to a financial activity, including the maintenance and expansion of the reinsurance activities conducted through its wholly-owned subsidiary, AssuranceOne, Ltd.

Critical Accounting Policies

Insurance Premiums Written and Earned

Insurance premiums written and earned are recognized over the term of the policy, which is month to month. Since the policy s premiums are recognized month to month, there is no unearned premium on the Consolidated Balance Sheets as these are fully recognized through the Consolidated Statements of Operations in the month written. For all annual and interim periods, second quarter 2016 and prior, income and expense related to insurance premiums written and earned, insurance policy fees, deferred acquisition costs, premium taxes and provision for losses and loss adjustment expenses is recorded within the Insurance premium written and earned line on the Consolidated Statement of Operations. Effective third quarter 2016, on a prospective basis, only insurance premium written and earned was recorded to that line. Effective third quarter 2016, on a prospective basis, insurance policy fees were recorded as Other income and deferred acquisition costs, premium taxes and provision for losses and loss adjustment expenses were recorded in General and administrative expense. For the years ended December 31, 2015 and 2014, insurance premiums written and earned were $5.5 million and $5.0 million, respectively. For the nine months ended September 30, 2016, insurance premiums written and earned were $4.6 million.

Table of Contents

Other Income

Other income includes various administrative transaction fees, insurance policy fees, fees received from referral of leases to third parties and gain on sale of leases, recognized as earned. Effective third quarter 2016, on a prospective basis, the insurance policy fees are recognized in the Consolidated Statements of Operations in Other income and for all previous annual and interim periods are recorded net in Insurance premiums written and earned.

Insurance Program Deferred Acquisition Costs

Deferred acquisitions costs represent the fees paid to a third-party insurance company. Effective third quarter 2016, on a prospective basis, the costs are recognized on the Consolidated Statements of Operations in General and administrative expense and for all previous annual and interim periods were recognized net in Insurance premiums written and earned. For each of the years ended December 31, 2015, 2014 and 2013, the Company recognized deferred acquisition costs of less than $0.8 million. For the nine months ended September 30, 2016, the Company recognized $0.5 million of deferred acquisition costs. Since the policy s premiums are recognized on a month to month basis, there is no deferred acquisition costs on the Consolidated Balance Sheets as these are fully recognized through the Consolidated Statements of Operations in the month written.

Provision for Unpaid Losses and Loss Adjustment Expenses

The Company records a provision for insurance losses and loss adjustment expenses. Effective third quarter 2016, on a prospective basis, the expense was recorded in General and administrative expense on the Consolidated Statement of Operations and for all previous annual and interim periods is recorded net in Insurance premiums written and earned. The liability for losses and loss adjustment expenses includes an amount determined from loss reports and individual cases and an amount, based on historical loss experience and industry statistics, for losses incurred but not reported (IBNR). These estimates are continually reviewed and are subject to the impact of future changes in such factors as claim severity and frequency. Loss and loss expenses are paid when advised by the third-party insurance company. Outstanding losses comprise estimates of the amount of reported losses and loss expenses received from the third-party insurance company plus a provision for losses IBNR. IBNR is determined with the assistance of a third-party actuary. For each of the years ended December 31, 2015, 2014, and 2013, the Company recognized provision for unpaid losses and loss adjustment expenses of less than $0.4 million. For the nine months ended September 30, 2016, the Company recognized provision for unpaid loss and loss adjustment expense of less than $0.5 million.

There have been no other significant changes to our Critical Accounting Policies as described in our 2015 Annual Report on Form 10-K.

RESULTS OF OPERATIONS

Comparison of the Three-Month Periods Ended September 30, 2016 and September 30, 2015

Net income. Net income of $4.3 million was reported for the three-month period ended September 30, 2016, resulting in diluted EPS of $0.35, compared to net income of $4.8 million and diluted EPS of $0.38 for the three-month period ended September 30, 2015.

Return on average assets was 2.05% for the three-month period ended September 30, 2016, compared to a return of 2.51% for the three-month period ended September 30, 2015. Return on average equity was 11.10% for the three-month period ended September 30, 2016, compared to a return of 10.95% for the three-month period ended

September 30, 2015.

Overall, our average net investment in total finance receivables for the three-month period ended September 30, 2016 increased 14.2% to $732.3 million, compared to $641.0 million for the three-month period ended September 30, 2015. This change was primarily due to origination volume continuing to exceed lease repayments. The end-of-period net investment in total finance receivables at September 30, 2016 was $759.4 million, an increase of $77.0 million, or 11.3%, from $682.4 million at December 31, 2015.

During the three months ended September 30, 2016, we generated 6,606 new leases with equipment cost of $117.9 million, compared to 6,476 new leases with equipment cost of $99.7 million generated for the three months ended September 30, 2015. Sales staffing levels increased from 131 sales account executives at September 30, 2015 to 136 sales account executives at September 30, 2016. Approval rates decreased 10% to 56% for the quarter ended September 30, 2016, compared to 66% for the quarter ended September 30, 2015.

Table of Contents

For the three-month period ended September 30, 2016 compared to the three-month period ended September 30, 2015, net interest and fee income increased $1.5 million, or 7.8%, primarily due to a $2.1 million increase in interest income, partially offset by a $0.7 million increase in interest expense. The provision for credit losses increased $1.1 million, or 55.0%, to $3.1 million for the three-month period ended September 30, 2016 from $2.0 million for the same period in 2015, primarily due to growth in the portfolio.

Table of Contents

Average balances and net interest margin. The following table summarizes the Company s average balances, interest income, interest expense and average yields and rates on major categories of interest-earning assets and interest-bearing liabilities for the three-month periods ended September 30, 2016 and September 30, 2015.

	Three Months Ended September 30,					
	2016			2015		
	(Dollars in thousands)					
	Average Balance[1]	Interest	Average Yields/ Rates[2]	Average Balance[1]	Interest	Average Yields/ Rates[2]
Interest-earning assets:						
Interest-earning deposits with banks	$ 78,907	$ 48	0.25%	$ 88,263	$ 24	0.11%
Time Deposits	9,107	28	1.21	7,368	21	1.15
Restricted interest-earning deposits with banks	18		0.11	502		0.01
Securities available for sale	6,120	34	2.22	6,080	33	2.17
Net investment in leases[3]	713,413	17,361	9.73	638,358	16,473	10.32
Loans receivable[3]	18,933	1,332	28.13	2,662	139	20.81
Total interest-earning assets	826,498	18,803	9.10	743,233	16,690	8.98
Non-interest-earning assets:						
Cash and due from banks	2,532			2,295		
Property and equipment, net	3,718			4,042		
Property tax receivables	5,356			3,074		
Other assets[4]	11,284			10,357		
Total non-interest-earning assets	22,890			19,768		
Total assets	$ 849,388			$ 763,001		
Interest-bearing liabilities:						
Certificate of Deposits[5]	$ 610,912	$ 1,971	1.29%	510,160	$ 1,399	1.10%
Money Market Deposits[5]	52,027	84	0.64	46,755	34	0.29
Total interest-bearing liabilities	662,939	2,055	1.24	556,915	1,433	1.03
Non-interest-bearing liabilities:						
Sales and property taxes payable	5,882			5,959		
Accounts payable and accrued expenses	8,144			7,908		
Net deferred income tax liability	15,907			16,944		
Total non-interest-bearing liabilities	29,933			30,811		
Total liabilities	692,872			587,726		
Stockholders equity	156,516			175,275		

Total liabilities and stockholders equity	$ 849,388		$ 763,001	
Net interest income		$ 16,748		$ 15,257
Interest rate spread[6]		7.86%		7.95%
Net interest margin[7]		8.11%		8.21%
Ratio of average interest-earning assets to average interest-bearing liabilities		124.67%		133.46%

(1) Average balances were calculated using average daily balances.

Table of Contents

(2) Annualized.

(3) Average balances of leases and loans include non-accrual leases and loans, and are presented net of unearned income. The average balances of leases and loans do not include the effects of (i) the allowance for credit losses and (ii) initial direct costs and fees deferred.

(4) Includes operating leases.

(5) Includes effect of transaction costs. Amortization of transaction costs is on a straight-line basis, resulting in an increased average rate whenever average portfolio balances are at reduced levels.

(6) Interest rate spread represents the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.

(7) Net interest margin represents net interest income as an annualized percentage of average interest-earning assets.

Table of Contents

The following table presents the components of the changes in net interest income by volume and rate.

	Three Months Ended September 30, 2016 Compared To Three Months Ended September 30, 2015 Increase (Decrease) Due To:		
	Volume[1]	Rate[1]	Total
	(Dollars in thousands)		
Interest income:			
Interest-earning deposits with banks	$ (3)	$ 27	$ 24
Time Deposits	5	2	7
Securities available for sale		1	1
Net investment in leases	1,863	(975)	888
Loans receivable	1,129	64	1,193
Total interest income	1,892	221	2,113
Interest expense:			
Certificate of Deposits	302	270	572
Money Market Deposits	4	46	50
Total interest expense	300	322	622
Net interest income	1,690	(199)	1,491

(1) Changes due to volume and rate are calculated independently for each line item presented rather than presenting vertical subtotals for the individual volume and rate columns. Changes attributable to changes in volume represent changes in average balances multiplied by the prior period s average rates. Changes attributable to changes in rate represent changes in average rates multiplied by the prior year s average balances. Changes attributable to the combined impact of volume and rate have been allocated proportionately to the change due to volume and the change due to rate.

Table of Contents

Net interest and fee margin. The following table summarizes the Company s net interest and fee income as an annualized percentage of average total finance receivables for the three-month periods ended September 30, 2016 and September 30, 2015.

	Three Months Ended September 30,	
	2016	2015
	(Dollars in thousands)	
Interest income	$ 18,803	$ 16,690
Fee income	3,944	3,915
Interest and fee income	22,747	20,605
Interest expense	2,055	1,433
Net interest and fee income	$ 20,692	$ 19,172
Average total finance receivables[1]	$ 732,346	$ 641,020
Annualized percent of average total finance receivables:		
Interest income	10.27%	10.41%
Fee income	2.15	2.44
Interest and fee income	12.42	12.85
Interest expense	1.12	0.89
Net interest and fee margin	11.30%	11.96%

(1) Total finance receivables include net investment in direct financing leases and loans. For the calculations above, the effects of (i) the allowance for credit losses and (ii) initial direct costs and fees deferred are excluded.

Net interest and fee income increased $1.5 million, or 7.8%, to $20.7 million for the three months ended September 30, 2016 from $19.2 million for the three months ended September 30, 2015. The annualized net interest and fee margin decreased 66 basis points to 11.30% in the three-month period ended September 30, 2016 from 11.96% for the same period in 2015.

Interest income, net of amortized initial direct costs and fees, was $18.8 million and $16.7 million for the three-month periods ended September 30, 2016 and September 30, 2015, respectively. Average total finance receivables increased $91.3 million, or 14.2%, to $732.3 million at September 30, 2016 from $641.0 million at September 30, 2015. The increase in average total finance receivables was primarily due to origination volume continuing to exceed lease repayments. The average yield on the portfolio decreased, due to lower yields on the new leases compared to the yields on the leases repaying. The weighted average implicit interest rate on new finance receivables originated was 11.70% and 11.06% for the three-month periods ended September 30, 2016, and September 30, 2015, respectively.

Fee income was $3.9 million for each of the three-month periods ended September 30, 2016 and September 30, 2015. Fee income included approximately $1.1 million and $1.0 million of net residual income for the three-month periods

ended September 30, 2016 and September 30, 2015, respectively.

Fee income also included approximately $2.4 million and $2.2 million in late fee income for the three-month periods ended September 30, 2016 and September 30, 2015, respectively.

Fee income, as an annualized percentage of average total finance receivables, decreased 29 basis points to 2.15% for the three-month period ended September 30, 2016 from 2.44% for the same period in 2015. Late fees remained the largest component of fee income at 1.29% as an annualized percentage of average total finance receivables for the three-month period ended September 30, 2016, compared to 1.38% for the three-month period ended September 30, 2015. As an annualized percentage of average total finance receivables, net residual income was 0.58% for the three-month period ended September 30, 2016, compared to 0.65% for the three-month period ended September 30, 2015.

Interest expense increased $0.7 million to $2.1 million, or 1.24% as an annualized percentage of average deposits for, the three-month period ended September 30, 2016, from $1.4 million, or 1.03% as an annualized percentage of average deposits, for the three-month period ended September 30, 2015. The increase was primarily due to an increase in rate paid on interest bearing liabilities and to a lesser degree, the increase in the average balances of interest bearing liabilities. Interest expense, as an annualized percentage of average total finance receivables, increased 23 basis points to 1.12% for the three-month period ended September 30, 2016, from 0.89% for the same period in 2015. The average balance of deposits was $662.9 million and $556.9 million for the three-month periods ended September 30, 2016 and September 30, 2015, respectively.

There were no borrowings outstanding for each of the three months ended September 30, 2016, and September 30, 2015.

Our wholly-owned subsidiary, MBB, serves as our primary funding source. MBB raises fixed-rate and variable-rate FDIC-insured deposits via the brokered certificates of deposit market, on a direct basis, and through the brokered MMDA Product. At September 30, 2016, brokered certificates of deposit represented approximately 60% of total deposits, while approximately 32% of total deposits were obtained from direct channels, and 8% were in the brokered MMDA Product.

Insurance premiums written and earned. Insurance premiums written and earned increased $0.1 million to $1.6 million for the three-month period ended September 30, 2016 from $1.5 million for the three-month period ended September 30, 2015, primarily due to an increase in the number of contracts enrolled in the insurance program as well as higher average ticket size.

Other income. Other income was $1.1 million and $0.6 million for the three-month periods ended September 30, 2016 and September 30, 2015, respectively. Other income primarily includes various administrative transaction fees and fees received from referral of leases to third parties and gain on sale of leases, recognized as earned. Effective third quarter 2016, on a prospective basis, insurance policy fees of $0.4 million are recognized in the Consolidated Statements of Operations in Other income and for all previous quarters were recognized net in Insurance premiums written and earned.

Salaries and benefits expense. Salaries and benefits expense increased $0.7 million, or 9.9%, to $7.8 million for the three-month period ended September 30, 2016 from $7.1 million for the same period in 2015. The increase was primarily due to an increase in total personnel. Salaries and benefits expense, as an annualized percentage of average total finance receivables, was 4.27% for the three-month period ended September 30, 2016 compared with 4.40% for the same period in 2015. Total personnel increased to 318 at September 30, 2016 from 307 at September 30, 2015.

General and administrative expense. General and administrative expense increased $0.6 million, or 13.6%, to $5.0 million for the three months ended September 30, 2016 from $4.4 million for the same period in 2015. General and administrative expense as an annualized percentage of average total finance receivables was 2.72% for the three-month period ended September 30, 2016, compared to 2.72% for the three-month period ended September 30,

2015. Selected major components of general and administrative expense for the three-month period ended September 30, 2016 included $0.8 million of premises and occupancy expense, $0.3 million of audit and tax compliance expense, $0.6 million of data processing expense, $0.5 million of marketing expense, and $0.3 million of insurance related expenses which were recognized net in Insurance premiums written and earned in prior quarters. In comparison, selected major components of general and administrative expense for the three-month period ended September 30, 2015 included $0.8 million of premises and occupancy expense, $0.3 million of audit and tax compliance expense, $0.5 million of data processing expense, and $0.3 million of marketing expense.

Table of Contents

Financing related costs. Financing related costs primarily represent bank commitment fees paid to our financing sources on the unused portion of loan facilities. Financing related costs were less than $0.1 million for each of the three month periods ended September 30, 2016 and September 30, 2015.

Provision for credit losses. The provision for credit losses increased $1.1 million, or 55.0%, to $3.1 million for the three months ended September 30, 2016 from $2.0 million for the same period in 2015, primarily due to growth in the portfolio. Lease portfolio losses tend to follow patterns based on the mix of origination vintages comprising the portfolio. The anticipated credit losses from the inception of a particular lease origination vintage to charge-off generally follow a pattern of lower losses for the first few months, followed by increased losses in subsequent months, then lower losses during the later periods of the lease term. Therefore, the seasoning, or mix of origination vintages, of the portfolio affects the timing and amount of anticipated probable and estimable credit losses.

Net charge-offs were $2.5 million for the three-month periods ended September 30, 2016, compared to $2.0 million for the same period in 2015. Net charge-offs as an annualized percentage of average total finance receivables increased to 1.36% during the three-month period ended September 30, 2016, from 1.23% for the same period in 2015. The allowance for credit losses increased to approximately $10.1 million at September 30, 2016, an increase of $1.7 million from $8.4 million at December 31, 2015.

Additional information regarding asset quality is included herein in the subsequent section, Finance Receivables and Asset Quality.

Provision for income taxes. Income tax expense of $3.0 million was recorded for each of the three-month periods ended September 30, 2016 and September 30, 2015. Our effective tax rate, which is a combination of federal and state income tax rates, was approximately 41.1% and 38.3% for the three-month periods ended September 30, 2016 and September 30, 2015, respectively.

Comparison of the Nine-Month Periods Ended September 30, 2016 and September 30, 2015

Net income. Net income of $12.5 million was reported for the nine-month period ended September 30, 2016, resulting in diluted EPS of $1.00, compared to net income of $13.0 million and diluted EPS of $1.01 for the nine-month period ended September 30, 2015.

Return on average assets was 2.04% for the nine-month period ended September 30, 2016, compared to a return of 2.29% for the nine-month period ended September 30, 2015. Return on average equity was 10.84% for the nine-month period ended September 30, 2016, compared to a return of 9.92% for the nine-month period ended September 30, 2015.

Overall, our average net investment in total finance receivables for the nine-month period ended September 30, 2016 increased 12.0% to $705.9 million, compared to $630.1 million for the nine-month period ended September 30, 2015. This change was primarily due to origination volume continuing to exceed lease repayments. The end-of-period net investment in total finance receivables at September 30, 2016 was $759.4 million, an increase of $77.0 million, or 11.3%, from $682.4 million at December 31, 2015.

During the nine months ended September 30, 2016, we generated 19,603 new leases with equipment cost of $333.7 million, compared to 18,533 new leases with equipment cost of $273.7 million generated for the nine months ended September 30, 2015. Sales staffing levels increased from 131 sales account executives at September 30, 2015 to 136 sales account executives at September 30, 2016. Approval rates declined 5% to 59% for the nine-month period ended September 30, 2016, compared to 64% for the nine-month period ended September 30, 2015.

For the nine-month period ended September 30, 2016 compared to the nine-month period ended September 30, 2015, net interest and fee income increased $3.4 million, or 5.9%, primarily due to a $4.8 million increase in interest income, partially offset by a $1.5 million increase in interest expense. The provision for credit losses increased $1.4 million, or 18.7%, to $8.9 million for the nine-month period ended September 30, 2016 from $7.5 million for the same period in 2015, primarily due to growth in the portfolio.

Table of Contents

Average balances and net interest margin. The following table summarizes the Company s average balances, interest income, interest expense and average yields and rates on major categories of interest-earning assets and interest-bearing liabilities for the nine-month periods ended September 30, 2016 and September 30, 2015.

	Nine Months Ended September 30,					
	2016			2015		
	(Dollars in thousands)					
	Average Balance[1]	Interest	Average Yields/ Rates[2]	Average Balance[1]	Interest	Average Yields/ Rates[2]
Interest-earning assets:						
Interest-earning deposits with banks	$ 71,323	$ 137	0.26%	$ 97,023	$ 90	0.13%
Time Deposits	8,662	78	1.21	4,563	38	1.10
Restricted interest-earning deposits with banks	82		0.08	785		0.01
Securities available for sale	6,232	104	2.24	5,764	93	2.14
Net investment in leases[3]	692,085	51,250	9.87	628,214	49,226	10.45
Loans receivable[3]	13,794	2,952	28.53	1,859	218	15.60
Total interest-earning assets	792,178	54,521	9.17	738,208	49,665	8.97
Non-interest-earning assets:						
Cash and due from banks	2,805			1,960		
Property and equipment, net	3,777			3,635		
Property tax receivables	3,711			3,222		
Other assets[4]	11,662			9,899		
Total non-interest-earning assets	21,955			18,716		
Total assets	$ 814,133			$ 756,924		
Interest-bearing liabilities:						
Certificate of Deposits[5]	$ 580,631	$ 5,386	1.24%	505,937	$ 3,990	1.05%
Money Market Deposits[5]	52,168	218	0.56	47,069	98	0.28
Total interest-bearing liabilities	632,799	5,604	1.18	553,006	4,088	0.98
Non-interest-bearing liabilities:						
Sales and property taxes payable	5,192			4,893		
Accounts payable and accrued expenses	6,002			6,811		
Net deferred income tax liability	16,833			17,524		
Total non-interest-bearing liabilities	28,027			29,228		
Total liabilities	660,826			582,234		
Stockholders equity	153,307			174,690		

Total liabilities and stockholders equity	$ 814,133		$ 756,924	
Net interest income		$ 48,917		$ 45,577
Interest rate spread[6]		7.99%		7.99%
Net interest margin[7]		8.21%		8.23%
Ratio of average interest-earning assets to average interest-bearing liabilities		125.19%		133.49%

(1) Average balances were calculated using average daily balances.

Table of Contents

(2) Annualized.

(3) Average balances of leases and loans include non-accrual leases and loans, and are presented net of unearned income. The average balances of leases and loans do not include the effects of (i) the allowance for credit losses and (ii) initial direct costs and fees deferred.

(4) Includes operating leases.

(5) Includes effect of transaction costs. Amortization of transaction costs is on a straight-line basis, resulting in an increased average rate whenever average portfolio balances are at reduced levels.

(6) Interest rate spread represents the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.

(7) Net interest margin represents net interest income as an annualized percentage of average interest-earning assets.

Table of Contents

The following table presents the components of the changes in net interest income by volume and rate.

	Nine Months Ended September 30, 2016 Compared To Nine Months Ended September 30, 2015 Increase (Decrease) Due To:		
	Volume[1]	Rate[1]	Total
	(Dollars in thousands)		
Interest income:			
Interest-earning deposits with banks	$ (29)	$ 76	$ 47
Time Deposits	37	3	40
Securities available for sale	8	3	11
Net investment in leases	4,826	(2,802)	2,024
Loans receivable	2,422	312	2,734
Total interest income	3,694	1,162	4,856
Interest expense:			
Certificate of Deposits	636	760	1,396
Money Market Deposits	12	108	120
Total interest expense	639	877	1,516
Net interest income	3,333	7	3,340

(1) Changes due to volume and rate are calculated independently for each line item presented rather than presenting vertical subtotals for the individual volume and rate columns. Changes attributable to changes in volume represent changes in average balances multiplied by the prior period s average rates. Changes attributable to changes in rate represent changes in average rates multiplied by the prior year s average balances. Changes attributable to the combined impact of volume and rate have been allocated proportionately to the change due to volume and the change due to rate.

Table of Contents

Net interest and fee margin. The following table summarizes the Company s net interest and fee income as an annualized percentage of average total finance receivables for the nine-month periods ended September 30, 2016 and 2015.

	Nine Months Ended September 30,	
	2016	2015
	(Dollars in thousands)	
Interest income	$ 54,521	$ 49,665
Fee income	11,747	11,762
Interest and fee income	66,268	61,427
Interest expense	5,604	4,087
Net interest and fee income	$ 60,664	$ 57,340
Average total finance receivables[1]	$ 705,879	$ 630,073
Percent of average total finance receivables:		
Interest income	10.30%	10.51%
Fee income	2.22	2.49
Interest and fee income	12.52	13.00
Interest expense	1.06	0.86
Net interest and fee margin	11.46%	12.14%

(1) Total finance receivables include net investment in direct financing leases and loans. For the calculations above, the effects of (i) the allowance for credit losses and (ii) initial direct costs and fees deferred are excluded.

Net interest and fee income increased $3.4 million, or 5.9%, to $60.7 million for the nine-month period ended September 30, 2016 from $57.3 million for the nine-month period ended September 30, 2015. The annualized net interest and fee margin decreased 68 basis points to 11.46% in the nine-month period ended September 30, 2016 from 12.14% for the same period in 2015.

Interest income, net of amortized initial direct costs and fees, increased $4.8 million, or 9.7%, to $54.5 million for the nine-month period ended September 30, 2016 from $49.7 million for the nine-month period ended September 30, 2015. The increase in interest income was principally due to a decrease in average yield of 21 basis points partially offset by a 12.0% increase in average total finance receivables, which increased $75.8 million to $705.9 million at September 30, 2016 from $630.1 million at September 30, 2015. The increase in average total finance receivables was primarily due to origination volume continuing to exceed lease repayments. The average yield on the portfolio decreased due to lower yields on the new leases compared to the yields on the leases repaying. The weighted average implicit interest rate on new finance receivables originated increased 70 basis points to 11.73% for the nine-month period ended September 30, 2016, compared to 11.03% for the nine-month period ended September 30, 2015.

Fee income decreased $0.1 million to $11.7 million for the nine-month period ended September 30, 2016, compared to $11.8 million for the nine-month period ended September 30, 2015. Fee income included approximately $3.2 million of net residual income for the nine-month period ended September 30, 2016 and $2.9 million for the nine-month period ended September 30, 2015.

Fee income also included approximately $7.0 million in late fee income for the nine-month period ended September 30, 2016, which decreased 1.4% from $7.1 million for the nine-month period ended September 30, 2015.

Fee income, as an annualized percentage of average total finance receivables, decreased 27 basis points to 2.22% for the nine-month period ended September 30, 2016 from 2.49% for the nine-month period ended September 30, 2015. Late fees remained the largest component of fee income at 1.31% as an annualized percentage of average total finance receivables for the nine-month period ended September 30, 2016, compared to 1.50% for the nine-month period ended September 30, 2015. As an annualized percentage of average total finance receivables, net residual income was 0.61% for the nine-month period ended September 30, 2016, compared to 0.62% for the nine-month period ended September 30, 2015.

Interest expense increased $1.5 million to $5.6 million, or 1.18% as an annualized percentage of average deposits for, the nine-month period ended September 30, 2016, from $4.1 million, or 0.98% as an annualized percentage of average deposits, for the nine-month period ended September 30, 2015. The increase was primarily due to an increase in rate paid on interest bearing liabilities and to a lesser degree, the increase in the average balances of interest bearing liabilities. Interest expense, as an annualized percentage of average total finance receivables, increased 20 basis points to 1.06% for the nine-month period ended September 30, 2016, from 0.86% for the same period in 2015. The average balance of deposits was $632.8 million and $553.0 million for the nine-month periods ended September 30, 2016 and September 30, 2015, respectively.

There were no borrowings outstanding for each of the nine months ended September 30, 2016, and September 30, 2015.

Our wholly-owned subsidiary, MBB, serves as our primary funding source. MBB raises fixed-rate and variable-rate FDIC-insured deposits via the brokered certificates of deposit market, on a direct basis, and through the brokered MMDA Product. At September 30, 2016, brokered certificates of deposit represented approximately 60% of total deposits, while approximately 32% of total deposits were obtained from direct channels, and 8% were in the brokered MMDA Product.

Insurance premiums written and earned. Insurance premiums written and earned increased $0.5 million to $4.8 million for the nine-month period ended September 30, 2016 from $4.3 million for the nine-month period ended September 30, 2015, primarily due to an increase in the number of contracts enrolled in the insurance program as well as higher average ticket size.

Other income. Other income was $2.0 million and $1.3 million for the nine-month periods ended September 30, 2016 and September 30, 2015, respectively. Other income primarily includes various administrative transaction fees and fees received from referral of leases to third parties and gain on sale of leases, recognized as earned. Effective third quarter 2016, on a prospective basis, insurance policy fees of $0.4 million are recognized in the Consolidated Statements of Operations in Other income and for all previous quarters were recognized net in Insurance premiums written and earned.

Salaries and benefits expense. Salaries and benefits expense increased $2.5 million, or 11.7%, to $23.8 million for the nine months ended September 30, 2016 from $21.3 million for the same period in 2015. The increase was primarily due to an increase in total personnel. Salaries and benefits expense, as an annualized percentage of average total finance receivables, was 4.49% for the nine-month period ended September 30, 2016 compared with 4.51% for the same period in 2015.

Total personnel increased to 318 at September 30, 2016 from 307 at September 30, 2015.

General and administrative expense. General and administrative expense increased $1.3 million, or 10.2%, to $14.1 million for the nine months ended September 30, 2016 from $12.8 million for the same period in 2015. General and

administrative expense as an annualized percentage of average total finance receivables was 2.65% for the nine-month period ended September 30, 2016, compared to 2.70% for the nine-month period ended September 30, 2015. Selected major components of general and administrative expense for the nine-month period ended September 30, 2016 included $2.5 million of premises and occupancy expense, $1.0 million of audit and tax compliance expense, $1.7 million of data processing expense, $1.5 million of marketing expense, and $0.3 million of insurance related expenses which were recognized net in Insurance premiums written and earned in prior quarters.. In comparison, selected major components of general and administrative expense for the nine-month period ended September 30, 2015 included $2.5 million of premises and occupancy expense, $1.0 million of audit and tax compliance expense, $1.4 million of data processing expense, and $0.9 million of marketing expense.

Table of Contents

Financing related costs. Financing related costs primarily represent bank commitment fees paid to our financing sources on the unused portion of loan facilities. Financing related costs were $0.1 million for the nine months ended September 30, 2016, compared to $0.2 million for the same period in 2015.

Provision for credit losses. The provision for credit losses increased $1.4 million, or 18.7%, to $8.9 million for the nine-month period ended September 30, 2016 from $7.5 million for the same period in 2015, primarily due to growth in the portfolio. Lease portfolio losses tend to follow patterns based on the mix of origination vintages comprising the portfolio. The anticipated credit losses from the inception of a particular lease origination vintage to charge-off generally follow a pattern of lower losses for the first few months, followed by increased losses in subsequent months, then lower losses during the later periods of the lease term. Therefore, the seasoning, or mix of origination vintages, of the portfolio affects the timing and amount of anticipated probable and estimable credit losses.

Net charge-offs were $7.2 million for the nine-month period ended September 30, 2016, compared to $7.5 million for the same period in 2015. The decrease in net charge-offs was primarily due to the ongoing seasoning of the portfolio as reflected in the mix of origination vintages and the mix of credit profiles. Net charge-offs as an annualized percentage of average total finance receivables decreased to 1.36% during the nine-month period ended September 30, 2016, from 1.59% for the same period in 2015. The allowance for credit losses increased to approximately $10.1 million at September 30, 2016, an increase of $1.7 million from $8.4 million at December 31, 2015.

Additional information regarding asset quality is included herein in the subsequent section, Finance Receivables and Asset Quality.

Provision for income taxes. Income tax expense of $8.1 million was recorded for the nine-month period ended September 30, 2016, compared to an expense of $8.2 million for the same period in 2015. The change is primarily attributable to the change in pretax income recorded and a change in the effective tax rate due to changing demographics for the nine-month period ended September 30, 2016 compared to the nine-month period ended September 30, 2015. Our effective tax rate, which is a combination of federal and state income tax rates, was approximately 39.4% for the nine-month period ended September 30, 2016, compared to 38.6% for the nine-month period ended September 30, 2015.

FINANCE RECEIVABLES AND ASSET QUALITY

Our net investment in leases and loans increased $77.0 million, or 11.3%, to $759.4 million at September 30, 2016 from $682.4 million at December 31, 2015. We continue to monitor our credit underwriting guidelines in response to current economic conditions, and we continue to develop our sales organization to increase originations.

Table of Contents

The chart which follows provides our asset quality statistics for each of the three-and nine-month periods ended September 30, 2016 and September 30, 2015, and the year ended December 31, 2015:

		Three Months Ended September 30,		Nine Months Ended September 30,		Year Ended December 31,
		2016	2015	2016	2015	2015
		(Dollars in thousands)				
Allowance for credit losses, beginning of period		$ 9,430	$ 8,567	$ 8,413	$ 8,537	$ 8,537
Charge-offs		(3,062)	(2,595)	(9,060)	(9,196)	(12,453)
Recoveries		568	630	1,840	1,705	2,334
Net charge-offs		(2,494)	(1,965)	(7,220)	(7,491)	(10,119)
Provision for credit losses		3,137	1,986	8,880	7,542	9,995
Allowance for credit losses, end of period	(1)	$ 10,073	$ 8,588	$ 10,073	$ 8,588	$ 8,413
Annualized net charge-offs to average total finance receivables	(2)	1.36%	1.23%	1.36%	1.59%	1.59%
Allowance for credit losses to total finance receivables, end of period	(2)	1.33%	1.31%	1.33%	1.31%	1.24%
Average total finance receivables	(2)	$ 732,346	$ 641,020	$ 705,879	$ 630,073	$ 636,790
Total finance receivables, end of period	(2)	$ 756,144	$ 657,143	$ 756,144	$ 657,143	$ 679,738
Delinquencies greater than 60 days past due		$ 3,885	$ 3,186	$ 3,885	$ 3,186	$ 3,163
Delinquencies greater than 60 days past due	(3)	0.45%	0.43%	0.45%	0.43%	0.41%
Allowance for credit losses to delinquent accounts greater than 60 days past due	(3)	259.28%	269.55%	259.28%	269.55%	265.98%
Non-accrual leases and loans, end of period		$ 2,022	$ 1,684	$ 2,022	$ 1,684	$ 1,677
Renegotiated leases and loans, end of period		$ 350	$ 468	$ 350	$ 468	$ 535
Accruing leases and loans past due 90 days or more		$	$	$	$	$
Interest income included on non-accrual leases and loans	(4)	$ 21	$ 23	$ 111	$ 110	$ 153

Interest income excluded on non-accrual leases and loans	(5)	$	23	$	22	$	40	$	33	$ 41

(1) At September 30, 2016, December 31, 2015, and September 30, 2015 the allowance for credit losses allocated to loans was $0.7 million, $0.2 million, and less than $0.1 million, respectively.

(2) Total finance receivables include net investment in direct financing leases and loans. For purposes of asset quality and allowance calculations, the effects of (i) the allowance for credit losses and (ii) initial direct costs and fees deferred are excluded.

(3) Calculated as a percent of total minimum lease payments receivable for leases and as a percent of principal outstanding for loans.

Table of Contents

(4) Represents interest which was recognized during the period on non-accrual loans and leases, prior to non-accrual status.

(5) Represents interest which would have been recorded on non-accrual loans and leases had they performed in accordance with their contractual terms during the period.

Net investments in finance receivables are generally charged-off when they are contractually past due for 120 days or more. Income recognition is discontinued on leases or loans when a default on monthly payment exists for a period of 90 days or more. Income recognition resumes when a lease or loan becomes less than 90 days delinquent.

Net charge-offs for the three months ended September 30, 2016 were $2.5 million (1.36% of average total finance receivables on an annualized basis), compared to $2.4 million (1.38% of average total finance receivables on an annualized basis) for the three months ended June 30, 2016 and $2.0 million (1.23% of average total finance receivables on an annualized basis) for the three months ended September 30, 2015. Lease portfolio losses tend to follow patterns based on the mix of origination vintages comprising the portfolio. The timing of credit losses from the inception of a particular lease origination vintage to charge-off generally follows a pattern of lower losses for the first few months, followed by increased losses in subsequent months, then lower losses during the later periods of the lease term. Therefore, the seasoning, or mix of origination vintages, of the portfolio affects the timing and amount of charge-offs.

Net charge-offs for the nine-month period ended September 30, 2016 were $7.2 million (1.36% of average total finance receivables on an annualized basis), compared to $7.5 million (1.59% of average total finance receivables on an annualized basis) for the nine-month period ended September 30, 2015. The decrease in charge-off rate is partially due to the ongoing seasoning of the portfolio as reflected in the mix of origination vintages and the mix of credit profiles, as discussed above.

Delinquent accounts 60 days or more past due (as a percentage of minimum lease payments receivable for leases and as a percentage of principal outstanding for loans) were 0.45% at September 30, 2016 and 0.41% at December 31, 2015, compared to 0.43% at September 30, 2015. Supplemental information regarding loss statistics and delinquencies is available on the investor relations section of Marlin s website at www.marlincorp.com.

In accordance with the Contingencies and Receivables Topics of the FASB ASC, we maintain an allowance for credit losses at an amount sufficient to absorb losses inherent in our existing lease and loan portfolios as of the reporting dates based on our projection of probable net credit losses. The factors and trends discussed above were included in the Company s analysis to determine its allowance for credit losses. (See Critical Accounting Policies.)

RESIDUAL PERFORMANCE

Our leases offer our end user customers the option to own the equipment at lease expiration. As of September 30, 2016, approximately 69% of our leases were one dollar purchase option leases, 31% were fair market value leases and less than 1% were fixed purchase option leases, the latter of which typically contain an end-of-term purchase option equal to 10% of the original equipment cost. As of September 30, 2016, there were $26.9 million of residual assets retained on our Consolidated Balance Sheet, of which $22.5 million, or 83.5%, were related to copiers. As of December 31, 2015, there were $27.4 million of residual assets retained on our Consolidated Balance Sheet, of which $22.7 million, or 83.1%, were related to copiers. No other group of equipment represented more than 10% of equipment residuals as of September 30, 2016 and December 31, 2015. Improvements in technology and other market changes, particularly in copiers, could adversely impact our ability to realize the recorded residual values of this equipment.

Fee income included approximately $1.1 million and $1.0 million of net residual income for the three-month periods ended September 30, 2016 and September 30, 2015, respectively. Fee income included approximately $3.2 million and $2.9 million of net residual income for the nine-month periods ended September 30, 2016 and September 30, 2015, respectively. Net residual income includes income from lease renewals and gains and losses on the realization of residual values of leased equipment disposed at the end of term as further described below.

Our leases generally include renewal provisions and many leases continue beyond their initial contractual term. Based on the Company s experience, the amount of ultimate realization of the residual value tends to relate more to the customer s election at the end of the lease term to enter into a renewal period, purchase the leased equipment or return the leased equipment than it does to the equipment type.

Table of Contents

We consider renewal income a component of residual performance. Renewal income net of depreciation totaled approximately $1.3 million and $1.1 million for the three-month periods ended September 30, 2016 and September 30, 2015, respectively. Renewal income net of depreciation totaled approximately $3.8 million and $3.2 million for the nine-month periods ended September 30, 2016 and September 30, 2015, respectively.

For the three months ended September 30, 2016 and September 30, 2015, the net loss on residual values disposed at end of term totaled $0.2 million and $0.1 million, respectively. For the nine months ended September 30, 2016, the net loss on residual values disposed at end of term totaled $0.6 million, compared to a net loss of $0.3 million for the nine months ended September 30, 2015. The primary driver of the changes was a shift in the mix of the amounts, types and age of equipment disposed at the end of the applicable lease term. Historically, our net residual income has exceeded 100% of the residual recorded on such leases. Management performs periodic reviews of the estimated residual values and historical realization statistics no less frequently than quarterly. There was no impairment recognized on estimated residual values during the nine-month periods ended September 30, 2016 and September 30, 2015, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Our business requires a substantial amount of cash to operate and grow. Our primary liquidity need is to fund new originations. In addition, we need liquidity to pay interest and principal on our deposits and borrowings, to pay fees and expenses incurred in connection with our financing transactions, to fund infrastructure and technology investment, to pay dividends and to pay administrative and other operating expenses.

We are dependent upon the availability of financing from a variety of funding sources to satisfy these liquidity needs. Historically, we have relied upon four principal types of external funding sources for our operations:

- FDIC-insured deposits issued by our wholly-owned subsidiary, MBB;
- borrowings under various bank facilities;
- financing of leases and loans in various warehouse facilities (all of which have since been repaid in full); and
- financing of leases through term note securitizations (all of which have been repaid in full).

With the opening of MBB in 2008, we began to fund increasing amounts of new originations through the issuance of FDIC-insured deposits. Deposits issued by MBB represent our primary funding source for new originations.

On February 23, 2014, MBB added the FDIC-insured MMDA Product as another source of deposit funding. This product is offered through participation in a partner bank s insured savings account product to clients of that bank. It is a brokered account with a variable interest rate, recorded as a single deposit account at MBB. Over time, MBB may offer other products and services to the Company s customer base. MBB is a Utah state-chartered, Federal Reserve member commercial bank. As such, MBB is supervised by both the Federal Reserve Bank of San Francisco and the Utah Department of Financial Institutions.

On January 13, 2009, Marlin Business Services Corp. became a bank holding company and is subject to the Bank Holding Company Act and supervised by the Federal Reserve Bank of Philadelphia. On September 15, 2010, the

Federal Reserve Bank of Philadelphia confirmed the effectiveness of Marlin Business Services Corp. s election to become a financial holding company (while remaining a bank holding company) pursuant to Sections 4(k) and (l) of the Bank Holding Company Act and Section 225.82 of the Federal Reserve Board s Regulation Y. Such election permits Marlin Business Services Corp. to engage in activities that are financial in nature or incidental to a financial activity, including the maintenance and expansion of our reinsurance activities conducted through our wholly-owned subsidiary, AssuranceOne.

On October 9, 2009, Marlin Business Services Corp. s affiliate, Marlin s Receivables Corp. (MRC), closed on a $75.0 million, three-year committed loan facility with the Lender Finance division of Wells Fargo Capital Finance. The facility is secured by a lien on MRC s assets and is supported by guaranties from Marlin Business Services Corp. and MLC. Advances under the facility are made pursuant to a borrowing base formula, and the proceeds are used to fund lease originations. On April 8, 2015, the facility was amended to change the amount under the loan facility from $75.0 million to $50.0 million. On May 4, 2016, the facility was amended to extend the maturity date to August 4, 2016. On August 5, 2016, the facility was terminated.

The Company declared a dividend of $0.14 per share on July 28, 2016. The quarterly dividend was paid on August 18, 2016 to shareholders of record on the close of business on August 8, 2016, which resulted in a dividend payment of approximately $1.8 million. It represented the Company s twentieth consecutive quarterly cash dividend.

At September 30, 2016, we had approximately $25.0 million of available borrowing capacity from a federal funds line of credit with a correspondent bank in addition to available cash and cash equivalents of $77.6 million. This amount excludes additional liquidity that may be provided by the issuance of insured deposits through MBB.

Net cash used in investing activities was $91.9 million for the nine-month period ended September 30, 2016, compared to net cash used in investing activities of $46.5 million for the nine-month period ended September 30, 2015. The decrease in cash flows from investing activities is primarily due to $80.8 million more of purchases of equipment for direct financing lease contracts and funds used to originate loans partially offset by $5.7 million less in time deposits with banks and $27.8 million more of principal collections on leases and loans due to higher average finance receivables. Investing activities primarily relate to leasing activities.

Net cash provided by financing activities was $83.5 million for the nine-month period ended September 30, 2016, compared to net cash provided by financing activities of $17.8 million for the nine-month period ended September 30, 2015. The increase in cash flows from financing activities is primarily due to a $59.5 million increase in deposits. Financing activities include net advances and repayments on our various deposit and borrowing sources and transactions related to the Company s common stock, such as repurchasing common stock and paying dividends.

Additional liquidity is provided by or used by our cash flow from operations. Net cash provided by operating activities was $25.9 million for the nine-month period ended September 30, 2016, compared to net cash provided by operating activities of $23.3 million for the nine-month period ended September 30, 2015. Net cash provided by operating activities for the nine-month period ended September 30, 2016 includes $6.8 million of proceeds from the sale of leases which represents cash received for leases which were originated by the Company and subsequently sold to third parties.

We expect cash from operations, additional borrowings on existing and future credit facilities and funds from deposits issued through brokers, direct deposit sources, and the MMDA Product to be adequate to support our operations and projected growth for the next 12 months and the foreseeable future.

Total Cash and Cash Equivalents. Our objective is to maintain an adequate level of cash, investing any free cash in leases. We primarily fund our originations and growth using FDIC- insured deposits issued through MBB. Total cash and cash equivalents available as of September 30, 2016 totaled $77.6 million, compared to $60.1 million at December 31, 2015.

Time Deposits with Banks. Time deposits with banks are primarily composed of FDIC insured certificates of deposits that have original maturity dates of greater than 90 days. Generally, the certificates of deposits have the ability to redeem early, however, early redemption penalties may be incurred. Total time deposits as of September 30, 2016 and December 31, 2015 totaled $9.1 million and $7.4 million, respectively.

Restricted Interest-earning Deposits with Banks. As of September 30, 2016, no cash was classified as restricted interest-earning deposits with banks, compared to $0.2 million at December 31, 2015. Restricted interest-earning deposits with banks consisted primarily of trust accounts related to our secured debt facility.

Table of Contents

Borrowings. Our primary borrowing relationship requires the pledging of eligible lease and loan receivables to secure amounts advanced. We had no outstanding secured borrowings at September 30, 2016 and December 31, 2015. Information pertaining to our borrowing facilities is as follows:

	For the Nine Months Ended September 30, 2016				As of September 30, 2016		
	Maximum Facility Amount	Maximum Month End Amount Outstanding	Average Amount Outstanding	Weighted Average Rate (2)	Amount Outstanding	Weighted Average Rate (2)	Unused Capacity(1)
			(Dollars in thousands)				
Federal funds purchased	$ 25,000	$	$	%	$	%	$ 25,000
	$ 25,000		$	%	$	%	$ 25,000

(1) Does not include MBB s access to the Federal Reserve Discount Window, which is based on the amount of assets MBB chooses to pledge. Based on assets pledged at September 30, 2016, MBB had $27.6 million in unused, secured borrowing capacity at the Federal Reserve Discount Window. Additional liquidity that may be provided by the issuance of insured deposits is also excluded from this table.

(2) Does not include transaction costs.

Federal Funds Line of Credit with Correspondent Bank

MBB has established a federal funds line of credit with a correspondent bank. This line allows for both selling and purchasing of federal funds. The amount that can be drawn against the line is limited to $25.0 million.

Federal Reserve Discount Window

In addition, MBB has received approval to borrow from the Federal Reserve Discount Window based on the amount of assets MBB chooses to pledge. MBB had $27.6 million in unused, secured borrowing capacity at the Federal Reserve Discount Window, based on $31.1 million of net investment in leases pledged at September 30, 2016.

Long-term Loan Facilities

On October 9, 2009, Marlin Business Services Corp. s affiliate, MRC, closed on a $75.0 million, three-year committed loan facility with the Lender Finance division of Wells Fargo Capital Finance. The facility is secured by a lien on MRC s assets and is supported by guaranties from Marlin Business Services Corp. and MLC. Advances under the facility are made pursuant to a borrowing base formula, and the proceeds are used to fund lease originations. In contrast to previous facilities, this long-term loan facility does not require annual refinancing. On April 8, 2015, the facility was amended to change the amount under the loan facility from $75.0 million to $50.0 million. On May 4, 2016, the facility was amended to extend the maturity date to August 4, 2016. On August 5, 2016, the facility was terminated.

Table of Contents

Bank Capital and Regulatory Oversight

On January 13, 2009, we became a bank holding company by order of the Federal Reserve Board and are subject to regulation under the Bank Holding Company Act. All of our subsidiaries may be subject to examination by the Federal Reserve Board even if not otherwise regulated by the Federal Reserve Board. On September 15, 2010, the Federal Reserve Bank of Philadelphia confirmed the effectiveness of our election to become a financial holding company (while remaining a bank holding company) pursuant to Sections 4(k) and (l) of the Bank Holding Company Act and Section 225.82 of the Federal Reserve Board s Regulation Y. Such election permits us to engage in activities that are financial in nature or incidental to a financial activity, including the maintenance and expansion of our reinsurance activities conducted through our wholly-owned subsidiary, AssuranceOne.

MBB is also subject to comprehensive federal and state regulations dealing with a wide variety of subjects, including minimum capital standards, reserve requirements, terms on which a bank may engage in transactions with its affiliates, restrictions as to dividend payments and numerous other aspects of its operations. These regulations generally have been adopted to protect depositors and creditors rather than shareholders.

There are a number of restrictions on bank holding companies that are designed to minimize potential loss to depositors and the FDIC insurance funds. If an FDIC-insured depository subsidiary is undercapitalized, the bank holding company is required to ensure (subject to certain limits) the subsidiary s compliance with the terms of any capital restoration plan filed with its appropriate banking agency. Also, a bank holding company is required to serve as a source of financial strength to its depository institution subsidiaries and to commit resources to support such institutions in circumstances where it might not do so absent such policy. Under the Bank Holding Company Act, the Federal Reserve Board has the authority to require a bank holding company to terminate any activity or to relinquish control of a non-bank subsidiary upon the Federal Reserve Board s determination that such activity or control constitutes a serious risk to the financial soundness and stability of a depository institution subsidiary of the bank holding company.

Capital Adequacy. New capital adequacy standards adopted by the federal bank regulatory agencies establish new minimum capital requirements for the Company and MBB effective on January 1, 2015. Under the risk-based capital requirements applicable to them, bank holding companies must maintain a ratio of total capital to risk-weighted assets (including the asset equivalent of certain off-balance sheet activities such as acceptances and letters of credit) of not less than 8% (10% in order to be considered well-capitalized). The new requirements include a 6% minimum Tier 1 risk-based ratio (8% to be considered well-capitalized). Tier 1 Capital consists of common stock, related surplus, retained earnings, qualifying perpetual preferred stock and minority interests in the equity accounts of certain consolidated subsidiaries, after deducting goodwill and certain other intangibles. The remainder of total capital (Tier 2 Capital) may consist of certain perpetual debt securities, mandatory convertible debt securities, hybrid capital instruments and limited amounts of subordinated debt, qualifying preferred stock, allowance for credit losses on loans and leases, allowance for credit losses on off-balance-sheet credit exposures and unrealized gains on equity securities.

The new capital standards require a minimum Tier 1 leverage ratio of 4%. The capital requirements also now require a new common equity Tier 1 risk-based capital ratio with a required minimum of 4.5% (6.5% to be considered well-capitalized). The Federal Reserve Board s guidelines also provide that bank holding companies experiencing internal growth or making acquisitions are expected to maintain capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the guidelines indicate that the Federal Reserve Board will continue to consider a tangible tier 1 leverage ratio (*i.e.*, after deducting all intangibles) in evaluating proposals for expansion or new activities. MBB is subject to similar capital standards.

The Company is required to have a level of regulatory capital in excess of the regulatory minimum and to have a capital buffer above 0.625% for 2016. If a banking organization does not maintain capital above the minimum plus the capital conservation buffer it may be subject to restrictions on dividends, share buybacks, and certain discretionary payments such as bonus payments.

At September 30, 2016, MBB s Tier 1 leverage ratio, common equity Tier 1 risk-based ratio, Tier 1 risk-based capital ratio and total risk-based capital ratio were 16.05%, 16.73%, 16.73% and 17.98%, respectively, which exceeds requirements for well-capitalized status of 5%, 6.5%, 8% and 10%, respectively. At September 30, 2016, Marlin Business Services Corp. s Tier 1 leverage ratio, common equity Tier 1 risk based ratio, Tier 1 risk-based capital ratio and total risk-based capital ratio were 18.53%, 19.77%, 19.77% and 21.02%, respectively, which exceeds requirements for well-capitalized status of 5%, 6.5%, 8% and 10%, respectively.

Pursuant to the FDIC Agreement entered into in conjunction with the opening of MBB, MBB is required to keep its total risk-based capital ratio above 15%. MBB s Tier 1 Capital balance at September 30, 2016 was $131.0 million, which exceeds the regulatory threshold for well capitalized status. Until March 12, 2011, MBB operated in accordance with its original de novo three-year business plan as required by the original order issued by the FDIC when the Company opened MBB. Following the expiration of MBB s three-year de novo period, the Company provided MBB with additional capital to support growth of $25 million in 2011, $10 million in 2012, and $10 million in 2013. Additional capital was not required from the Company in 2014, 2015 or 2016 as MBB is able to support future growth.

Table of Contents

Information on Stock Repurchases

Information on Stock Repurchases is provided in Part II. Other Information, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds herein.

Items Subsequent to September 30, 2016

The Company declared a dividend of $0.14 per share on October 27, 2016. The quarterly dividend, which is expected to result in a dividend payment of approximately $1.8 million, is scheduled to be paid on November 17, 2016 to shareholders of record on the close of business on November 7, 2016. It represents the Company s twenty-first consecutive quarterly cash dividend. The payment of future dividends will be subject to approval by the Company s Board of Directors.

Contractual Obligations

In addition to scheduled maturities on our deposits and credit facilities, we have future cash obligations under various types of contracts. We lease office space and office equipment under long-term operating leases. The contractual obligations under our certificates of deposits, credit facilities, operating leases, agreements and commitments under non-cancelable contracts as of September 30, 2016 were as follows:

	Contractual Obligations as of September 30, 2016					
Period Ending December 31,	**Certificates of Deposits [1]**	**Contractual Interest Payments[2]**	**Operating Leases**	**Leased Facilities**	**Capital Leases**	**Total**
			(Dollars in thousands)			
2016	$ 64,434	$ 973	$ 1	$ 395	$ 25	$ 65,828
2017	238,491	5,710	4	1,527	77	245,809
2018	158,865	3,461	4	1,468		163,798
2019	82,659	1,760	4	1,431		85,854
2020	54,746	762	1	686		56,195
Thereafter	26,959	991				27,950
Total	$ 626,154	$ 13,657	$ 14	$ 5,507	$ 102	$ 645,434

(1) Money market deposit accounts are not included. As of September 30, 2016, money market deposit accounts totaled $50.8 million.

(2) Includes interest on certificates of deposits and borrowings.

There were no off-balance sheet arrangements requiring disclosure at September 30, 2016.

MARKET INTEREST RATE RISK AND SENSITIVITY

Market risk is the risk of losses arising from changes in values of financial instruments. We engage in transactions in the normal course of business that expose us to market risks. We attempt to mitigate such risks through prudent

management practices and strategies such as attempting to match the expected cash flows of our assets and liabilities.

Table of Contents

We are exposed to market risks associated with changes in interest rates and our earnings may fluctuate with changes in interest rates. The lease assets we originate are almost entirely fixed-rate. Accordingly, we generally seek to finance these assets primarily with fixed interest certificates of deposit issued by MBB, and to a lesser extent through the variable rate MMDA Product at MBB.

RECENTLY ISSUED ACCOUNTING STANDARDS

Information on recently issued accounting pronouncements and the expected impact on our financial statements is provided in Note 2, Summary of Significant Accounting Policies in the accompanying Notes to Consolidated Financial Statements.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The information appearing in the section captioned Management s Discussion and Analysis of Financial Condition and Results of Operations Market Interest Rate Risk and Sensitivity under Item 2 of Part I of this Form 10-Q is incorporated herein by reference.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report.

Based on that evaluation, the CEO and CFO concluded that our disclosure controls and procedures as of the end of the period covered by this report are designed and operating effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed under the 1934 Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and (ii) accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in the Company s internal control over financial reporting identified in connection with management s evaluation that occurred during the Company s third fiscal quarter of 2016 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

We are party to various legal proceedings, which include claims and litigation arising in the ordinary course of business. In the opinion of management, these actions will not have a material impact on our business, financial condition, results of operations or cash flows.

Item 1A. Risk Factors

There have been no material changes in the risk factors disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2015.

Table of Contents

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Information on Stock Repurchases

During the three months ended September 30, 2016, the Company did not repurchase any of its common stock under the 2014 Repurchase Plan in the open market.

In addition to the repurchases described above, pursuant to the 2014 Equity Plan, participants may have shares withheld to cover income taxes. There were 735 shares repurchased to cover income tax withholding in connection with the shares granted under the 2014 Equity Plan during the three-month period ended September 30, 2016, at an average cost of $17.98 per share.

Item 3. Defaults Upon Senior Securities
None.

Item 4. Mine Safety Disclosures
None.

Item 5. Other Information
None

Table of Contents

Item 6. Exhibits

Exhibit Number	Description
3.1	Amended and Restated Articles of Incorporation [1]
3.2	Bylaws [2]
31.1	Certification of the Chief Executive Officer of Marlin Business Services Corp. required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended. (Filed herewith)
31.2	Certification of the Chief Financial Officer of Marlin Business Services Corp. required by Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended. (Filed herewith)
32.1	Certification of the Chief Executive Officer and Chief Financial Officer of Marlin Business Services Corp. required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended. (This exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this exhibit shall not be deemed to be incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.) (Furnished herewith)
101	Financial statements from the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2016, formatted in XBRL: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Statements of Stockholders Equity, (v) the Condensed Consolidated Statements of Cash Flows and (vi) the Notes to Unaudited Condensed Consolidated Financial Statements. (Submitted electronically with this report)

(1) Previously filed with the SEC as an exhibit to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2007 filed on March 5, 2008, and incorporated by reference herein.

(2) Previously filed with the SEC as an exhibit to the Company s Amendment No. 1 to Registration Statement on Form S-1 (File No. 333-108530), filed on October 14, 2003 and incorporated by reference herein.

Table of Contents

SIGNATURES

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

MARLIN BUSINESS SERVICES CORP.

(Registrant)

By: /s/ Jeff Hilzinger Jeff Hilzinger	*Chief Executive Officer* *(Chief Executive Officer)*
By: /s/ W. Taylor Kamp W. Taylor Kamp	*Chief Financial Officer & Senior Vice President* *(Principal Financial Officer)*

Date: October 31, 2016