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, 2014

Commission file number 000-50448

MARLIN BUSINESS SERVICES CORP.

(Exact name of registrant as specified in its charter)

Pennsylvania	38-3686388
(State of incorporation)	(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 þ 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 þ 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 þ	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 þ

At October 27, 2014, 12,820,714 shares of Registrant s common stock, $.01 par value, were outstanding.

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MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES

Quarterly Report on Form 10-Q

for the Quarter Ended September 30, 2014

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PART I. Financial Information

Item 1. Condensed Consolidated Financial Statements

MARLIN BUSINESS SERVICES CORP.

AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Unaudited)

	September 30, 2014	December 31, 2013
	(Dollars in thousands, except per-share data)	
ASSETS		
Cash and due from banks	$ 4,343	$ 3,534
Interest-earning deposits with banks	99,868	82,119
Total cash and cash equivalents	104,211	85,653
Restricted interest-earning deposits with banks	945	1,273
Securities available for sale (amortized cost of $5.7 million and $5.8 million at September 30, 2014 and December 31, 2013, respectively)	5,593	5,387
Net investment in leases and loans	618,691	597,075
Property and equipment, net	2,593	2,265
Property tax receivables	1,495	377
Other assets	6,657	10,177
Total assets	$ 740,185	$ 702,207
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits	$ 534,556	$ 503,038
Other liabilities:		
Sales and property taxes payable	5,794	4,035
Accounts payable and accrued expenses	13,440	14,220
Net deferred income tax liability	16,349	17,876
Total liabilities	570,139	539,169
Commitments and contingencies (Note 6)		
Stockholders equity:		

Common Stock, $0.01 par value; 75,000,000 shares authorized; 12,821,071 and 12,994,758 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively		128		130
Preferred Stock, $0.01 par value; 5,000,000 shares authorized; none issued				
Additional paid-in capital		88,545		91,730
Stock subscription receivable		(2)		(2)
Accumulated other comprehensive loss		(84)		(257)
Retained earnings		81,459		71,437
Total stockholders equity		170,046		163,038
Total liabilities and stockholders equity	$	740,185	$	702,207

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

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MARLIN BUSINESS SERVICES CORP.

AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in thousands, except per-share data)			
Interest income	$ 16,705	$ 16,286	$ 50,182	$ 47,075
Fee income	3,881	3,410	11,016	9,733
Interest and fee income	20,586	19,696	61,198	56,808
Interest expense	1,250	1,036	3,647	3,458
Net interest and fee income	19,336	18,660	57,551	53,350
Provision for credit losses	2,706	2,303	6,562	6,360
Net interest and fee income after provision for credit losses	16,630	16,357	50,989	46,990
Other income:				
Insurance income	1,341	1,186	3,996	3,572
Loss on derivatives				(2)
Other income	400	386	1,176	1,200
Other income	1,741	1,572	5,172	4,770
Other expense:				
Salaries and benefits	6,313	6,601	19,962	19,543
General and administrative	3,818	3,475	11,975	10,918
Financing related costs	297	296	881	809
Other expense	10,428	10,372	32,818	31,270
Income before income taxes	7,943	7,557	23,343	20,490
Income tax expense	3,039	2,870	8,860	7,685
Net income	$ 4,904	$ 4,687	$ 14,483	$ 12,805
Basic earnings per share	$ 0.38	$ 0.37	$ 1.12	$ 1.00
Diluted earnings per share	$ 0.38	$ 0.36	$ 1.12	$ 0.99

Cash dividends declared and paid per share	$ 0.125	$ 2.11	$ 0.345	$ 2.31

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

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MARLIN BUSINESS SERVICES CORP.

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Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
	(Dollars in thousands)			
Net income	$ 4,904	$ 4,687	$ 14,483	$ 12,805
Other comprehensive income (loss):				
Increase (decrease) in fair value of securities available for sale	33	(75)	278	(410)
Tax effect	(11)	29	(105)	157
Total other comprehensive income (loss)	22	(46)	173	(253)
Comprehensive income	$ 4,926	$ 4,641	$ 14,656	$ 12,552

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

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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, 2012	12,774,829	$ 128	$ 87,494	$ (2)	$ 55	$ 86,575	$ 174,250
Issuance of common stock	14,727		270				270
Repurchase of common stock	(53,988)	(1)	(1,167)				(1,168)
Exercise of stock options	127,957	1	1,523				1,524
Excess tax benefits from stock-based payment arrangements			1,052				1,052
Stock option compensation recognized			188				188
Restricted stock grant	131,233	2	(2)				
Restricted stock compensation recognized			2,372				2,372
Net change in unrealized gain/loss on securities available for sale, net of tax					(312)		(312)
Net income						16,231	16,231
Cash dividends paid						(31,369)	(31,369)
Balance, December 31, 2013	12,994,758	$ 130	$ 91,730	$ (2)	$ (257)	$ 71,437	$ 163,038
Issuance of common stock	7,795		135				135
Repurchase of common stock	(281,601)	(3)	(5,697)				(5,700)
Exercise of stock options	4,811		75				75
Excess tax benefits from stock-based payment arrangements			662				662
			7				7

Stock option compensation recognized							
Restricted stock grant (cancelation)	95,308	1	(1)				
Restricted stock compensation recognized			1,634				1,634
Net change in unrealized gain/loss on securities available for sale, net of tax					173		173
Net income						14,483	14,483
Cash dividends paid						(4,461)	(4,461)
Balance, September 30, 2014	12,821,071	$ 128	$ 88,545	$ (2)	$ (84)	$ 81,459	$ 170,046

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

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MARLIN BUSINESS SERVICES CORP.

AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	$ 14,483	$ 12,805
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,176	1,469
Stock-based compensation	1,641	1,582
Excess tax benefits from stock-based payment arrangements	(662)	(1,048)
Change in fair value of derivatives		2
Provision for credit losses	6,562	6,360
Net deferred income taxes	(1,662)	(1,140)
Amortization of deferred initial direct costs and fees	5,425	4,989
Deferred initial direct costs and fees	(5,282)	(5,815)
Loss on equipment disposed	1,197	1,765
Effect of changes in other operating items:		
Other assets	1,917	13,136
Other liabilities	1,732	1,982
Net cash provided by operating activities	26,527	36,087
Cash flows from investing activities:		
Purchases of equipment for direct financing lease contracts and funds used to originate loans	(245,816)	(258,694)
Principal collections on leases and loans	213,605	175,532
Security deposits collected, net of refunds	20	(135)
Proceeds from the sale of equipment	2,674	2,638
Acquisitions of property and equipment	(1,081)	(793)
Change in restricted interest-earning deposits with banks	328	1,920
Purchases of securities available for sale, net	72	(1,024)
Net cash (used in) investing activities	(30,198)	(80,556)
Cash flows from financing activities:		
Increase in deposits	31,518	99,235
Bank facility repayments		(15,514)

Issuances of common stock		135		140
Repurchases of common stock		(5,700)		(1,154)
Dividends paid		(4,461)		(29,941)
Exercise of stock options		75		1,502
Excess tax benefits from stock-based payment arrangements		662		1,048
Net cash provided by financing activities		22,229		55,316
Net increase in total cash and cash equivalents		18,558		10,847
Total cash and cash equivalents, beginning of period		85,653		64,970
Total cash and cash equivalents, end of period	$	104,211	$	75,817
Supplemental disclosures of cash flow information:				
Cash paid for interest on deposits and borrowings	$	3,127	$	2,605
Net cash paid for income taxes	$	6,833	$	(8,697)

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

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MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 The Company

Description

Marlin Business Services Corp. (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, which enables us to reinsure the property insurance coverage for the equipment financed by MLC and Marlin Business Bank for our end user customers. Effective March 12, 2008, the Company opened Marlin Business Bank (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. The Company is a bank holding company and a financial holding company regulated by the Federal Reserve Board under the Bank Holding Company Act.

References to the Company, Marlin, Registrant, we, us and our herein refer to Marlin Business Services Co
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 contain all adjustments (consisting of normal recurring items) necessary to present fairly the Company s financial position at September 30, 2014 and the results of operations for the three- and nine-month periods ended September 30, 2014 and 2013, and cash flows for the nine-month periods ended September 30, 2014 and 2013. 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 10, 2014. The consolidated results of operations for the three- and nine-month periods ended September 30, 2014 and 2013 and the consolidated statements of cash flows for the nine-month periods ended September 30, 2014 and 2013 are not necessarily indicative of the results of operations or cash flows for the respective full years or any other period.

Use of estimates. The preparation of financial statements in accordance with generally accepted accounting principles in the United States (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used when accounting for income recognition, the residual values of leased equipment, the allowance for credit losses, deferred initial direct costs and fees, late fee receivables, the fair value of financial instruments and income taxes. Actual results could differ from those estimates.

Cash and Cash Equivalents. Cash and cash equivalents include cash and interest-bearing money market funds. For purposes of the consolidated statement of cash flows, the Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Interest income. Interest income is recognized under the effective interest method. The effective interest method of income recognition applies a constant rate of interest equal to the internal rate of return on each lease.

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The Company s lease portfolio consists of homogenous small balance accounts with an average balance less than $10,000 across a large cross section of credit variables such as state, equipment type, obligor, vendor and industry category. These leases generally have similar credit risk characteristics and as a result the Company evaluates the impairment of the lease portfolio on a pooled basis. The Company s key credit quality indicator is delinquency status. Based on the historical payment behavior of the Company s lease portfolio as a whole, payments are considered reasonably assured when a lease s delinquency status is less than 90 days. Therefore, when a lease or loan is 90 days or more delinquent, the contract is classified as non-accrual and interest income recognition is discontinued. Interest income recognition resumes on a contract when the lessee makes payments sufficient to bring the contract s status to less than 90 days delinquent.

Modifications to leases are accounted for in accordance with Topic 840 of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC). Modifications resulting in renegotiated leases may include reductions in payment and extensions in term. However, such renegotiated leases are not granted concessions regarding implicit rates or reductions in total amounts due. Modifications may be granted on a one-time basis in situations that indicate the lessee is experiencing a temporary, timing issue and has a high likelihood of success with a revised payment plan. After a modification, a lease s accrual status is based on compliance with the modified terms.

Fee income. Fee income consists of fees for delinquent lease and loan payments, cash collected on early termination of leases and net residual income. 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 a lease s term. Residual income is recognized as earned.

Fee income from delinquent lease payments is recognized on an accrual basis based on anticipated collection rates. At a minimum of every quarter, an analysis of anticipated collection rates is performed based on updates to collection history. Adjustments in the anticipated collection rate assumptions are made as needed based on this analysis. Other fees are recognized when received.

Insurance income. Insurance income is recognized on an accrual basis as earned over the term of each lease. Generally, insurance payments that are 120 days or more past due are charged against income. Ceding commissions, losses and loss adjustment expenses are recorded in the period incurred and netted against insurance income.

Other income. Other income includes various administrative transaction fees and fees received from lease syndications, recognized as earned.

Securities available for sale. Securities available for sale consist of mutual funds and municipal bonds that are measured at fair value on a recurring basis. Unrealized holding gains or losses of all securities available for sale, net of related deferred income taxes, are reported in accumulated other comprehensive income. Fair value measurement is based upon quoted prices in active markets, if available. If quoted prices in active markets are not available, fair values are based on prices obtained from third-party pricing vendors. See Note 8 for more information on fair value measurement of securities.

Initial direct costs and fees. We defer initial direct costs incurred and fees received to originate our leases and loans in accordance with the Receivables Topic and the Nonrefundable Fees and Other Costs Subtopic of the FASB ASC. The initial direct costs and fees we defer are part of the net investment in leases and loans and are amortized to interest income using the effective interest method. We defer third-party commission costs, as well as certain internal costs directly related to the origination activity. Costs subject to deferral include evaluating each prospective customer s financial condition, evaluating and recording guarantees and other security arrangements, negotiating terms, preparing and processing documents and closing each transaction. The fees we defer are documentation fees collected at inception. The realization of the initial direct costs, net of fees deferred, is predicated on the net future cash flows generated by our lease and loan portfolios.

Net investment in leases and loans. As required by U.S. GAAP, the Company uses the direct finance method of accounting to record its direct financing leases and related interest income. At the inception of a lease, the Company records as an asset the aggregate future minimum lease payments receivable, plus the estimated residual value of the leased equipment, less unearned lease income. Residual values are established at lease inception based on our estimate of the expected fair value of the equipment at the end of the lease term. Residual values may be realized at lease termination from lease extensions, sales or other dispositions of leased equipment. Estimates are based on industry data and management s experience.

The Company records an estimated residual value at lease inception for all fair market value and fixed purchase option leases based on a percentage of the equipment cost of the asset being leased. The percentages used depend on equipment type and term. In setting estimated residual values, the Company focuses its analysis primarily on the Company s total historical and expected realization statistics pertaining to sales of equipment. In subsequent evaluations for the impairment of the booked residual values, the Company reviews historical realization statistics including lease renewals and equipment sales. Anticipated renewal income is not included in the determination of fair value. However, it is one of the ways that fair value may be realized at the end of the lease term.

At the end of an original lease term, lessees may choose to purchase the equipment, renew the lease or return the equipment to the Company. The Company receives income from lease renewals when the lessee elects to retain the equipment longer than the original term of the lease. This income, net of appropriate periodic reductions in the estimated residual values of the related equipment, is included in fee income as net residual income.

When a lessee elects to return equipment at lease termination, the equipment is transferred to other assets at the lower of its basis or fair market value. The Company generally sells returned equipment to independent third parties, rather than leasing the equipment a second time. The Company does not maintain equipment in other assets for longer than 120 days. Any loss recognized on transferring equipment to other assets and any gain or loss realized on the sale or disposal of equipment to a lessee or to others is included in fee income as net residual income.

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, to purchase the leased equipment or to return the leased equipment than it does to the equipment type. Management performs reviews of the estimated residual values and historic realization statistics no less frequently than quarterly and any impairment, if other than temporary, is recognized in the current period.

Initial direct costs and fees related to lease originations are deferred as part of the investment and amortized over the lease term. Unearned lease income is the amount by which the total lease receivable plus the estimated residual value exceeds the cost of the equipment. Unearned lease income, net of initial direct costs and fees, is recognized as revenue over the lease term using the effective interest method.

Allowance for credit losses. 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.

We generally evaluate our portfolios on a pooled basis, due to their composition of small balance, homogenous accounts with similar general credit risk characteristics, diversified among a large cross-section of variables, including industry, geography, equipment type, obligor and vendor. We consider both quantitative and qualitative factors in determining the allowance for credit losses. Quantitative factors considered include a migration analysis stratified by industry classification, historic delinquencies and charge-offs, and a static pool analysis of historic recoveries. A migration analysis is a technique used to estimate the likelihood that an account will progress through the various delinquency stages and ultimately charge off. As part of our quantitative analysis we may also consider specifically identified pools of leases separately from the migration analysis, whenever certain identified pools are not expected to perform consistently with their credit characteristics or the portfolio as a whole. These lease pools may be analyzed for impairment separately from the migration analysis and a specific reserve established.

Qualitative factors that may result in further adjustments to the quantitative analysis include items such as forecasting uncertainties, changes in the composition of our lease and loan portfolios (including geography, industry, equipment type and vendor source), seasonality, economic or business conditions and emerging trends, business practices or policies at the reporting date that are different from the periods used in the quantitative analysis.

The various factors used in the analysis are reviewed periodically, and no less frequently than quarterly. We then establish an allowance for credit losses for the projected probable net credit losses inherent in the portfolio based on this analysis. A provision is charged against earnings to maintain the allowance for credit losses at the appropriate level. Our policy is to charge-off against the allowance the estimated unrecoverable portion of accounts once they reach 121 days delinquent.

Our projections of probable net credit losses are inherently uncertain, and as a result we cannot predict with certainty the amount of such losses. Changes in economic conditions, the risk characteristics and composition of the portfolio, bankruptcy laws, and other factors could impact our actual and projected net credit losses and the related allowance for credit losses. To the extent we add new leases and loans to our portfolios, or to the degree credit quality is worse than expected, we record expense to increase the allowance for credit losses to reflect the estimated net losses inherent in our portfolios. Actual losses may vary from current estimates.

Common stock and equity. On July 29, 2014, the Company s Board of Directors approved a stock repurchase plan. Under the stock repurchase plan, the Company is authorized to repurchase its common stock on the open market. The par value of the shares repurchased is charged to common stock with the excess of the purchase price over par charged against any available additional paid-in capital.

Stock-based compensation. The Compensation Stock Compensation Topic of the FASB ASC establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees and non-employees, except for equity instruments held by employee share ownership plans.

The Company measures stock-based compensation cost at grant date, based on the fair value of the awards ultimately expected to vest. Stock-based compensation expense is recognized on a straight-line basis over the service period. We generally use the Black-Scholes valuation model to measure the fair value of our stock options utilizing various assumptions with respect to expected holding period, risk-free interest rates, stock price volatility and dividend yield. The assumptions are based on management s judgment concerning future events.

As required by U.S. GAAP, the Company uses its judgment in estimating the amount of awards that are expected to be forfeited, with subsequent revisions to the assumptions if actual forfeitures differ from those estimates. 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.

Non-forfeitable dividends paid on shares of restricted stock are recorded to retained earnings for shares that are expected to vest and to compensation expense for shares that are not expected to vest.

Income taxes. The Income Taxes Topic of the FASB ASC requires the use of the asset and liability method under which deferred taxes are determined based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities, given the provisions of the enacted tax laws. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences.

Significant management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any necessary valuation allowance recorded against net deferred tax assets. The process involves summarizing temporary differences resulting from the different treatment of items, such as leases, for tax and accounting purposes. These differences result in deferred tax assets and liabilities which are included within the Consolidated Balance Sheets. Management then assesses the likelihood that deferred tax assets will be recovered from future taxable income or tax carry-back availability and, to the extent our management believes recovery is not likely, a valuation allowance is established. To the extent that we establish a valuation allowance in a period, an expense is recorded within the tax provision in the Consolidated Statements of Operations.

In accordance with U.S. GAAP, uncertain tax positions taken or expected to be taken in a tax return are subject to potential financial statement recognition based on prescribed recognition and measurement criteria. Based on our evaluation, we concluded that there are no significant uncertain tax positions requiring recognition in our financial statements. At September 30, 2014, there have been no material changes to the liability for uncertain tax positions and there are no significant unrecognized tax benefits.

The periods subject to examination for the Company s federal return include the 2006 tax year to the present. The Company files state income tax returns in various states which may have different statutes of limitations. Generally, state income tax returns for the years 2006 through the present are subject to examination. As of September 30, 2014, the Company has a net payable balance of $0.4 million.

The Company records penalties and accrued interest related to taxes, including penalties and interest related to uncertain tax positions, in income tax expense. Such adjustments have historically been minimal and immaterial to our financial results.

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, earnings per share (EPS) is calculated using the two-class method, under which earnings are allocated to both common shares and participating securities. All shares of restricted stock are deducted from the weighted average shares outstanding for the computation of basic EPS.

Diluted EPS is computed based on the weighted average number of common shares outstanding for the period 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.

Recent Accounting Pronouncements. In April 2014, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.* Under the new guidance, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations only if the disposal represents a strategic shift that has (or will have) a major effect on an entity s operations and financial results. This guidance also changes an entity s requirements when presenting, for each comparative period, the assets and liabilities of a disposal group that includes a discontinued operation. A discontinued operation may include a component of an entity, or a business or nonprofit activity. The guidance is effective interim and annual reporting periods beginning after December 15, 2014. The adoption of the new requirements is not expected to have a material impact on the consolidated earnings, financial position or cash flows of the Company.

In June 2014, the FASB issued Accounting Standards Update 2014-12, *Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period.* Under the new guidance, it is required that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. This guidance also requires that the performance target not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. The adoption of the new requirements is not expected to have a material impact on the consolidated balance sheet, statement of operations, or statement of cash flows of the Company.

In August 2014, the FASB issued Accounting Standards Update 2014-15, *Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern*. Under the new guidance, an entity s management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity s ability to continue as a going concern within one year after the date that the financial statements are issued. The guidance is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The adoption of the new requirements is not expected to have a material impact on the consolidated balance sheet, statement of operations, or statement of cash flows of the Company.

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NOTE 3 Net Investment in Leases and Loans

Net investment in leases and loans consists of the following:

	September 30, 2014	December 31, 2013
	(Dollars in thousands)	
Minimum lease payments receivable	$ 700,526	$ 682,081
Estimated residual value of equipment	27,355	28,396
Unearned lease income, net of initial direct costs and fees deferred	(99,341)	(103,258)
Security deposits	(2,651)	(2,631)
Loans, including unamortized deferred fees and costs	1,173	954
Allowance for credit losses	(8,371)	(8,467)
	$ 618,691	$ 597,075

At September 30, 2014, a total of $6.6 million of minimum lease payments receivable is assigned as collateral for the borrowing facility. At September 30, 2014, there is no amount outstanding under this borrowing facility and the unused borrowing capacity is $75.0 million. In addition, $30.1 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 $10.1 million and $10.3 million as of September 30, 2014 and December 31, 2013, respectively. Initial direct costs are netted in unearned income and will be amortized to income using the effective interest method. At September 30, 2014 and December 31, 2013, $21.9 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, 2014:

	Minimum Lease Payments Receivable	Income Amortization
	(Dollars in thousands)	
Period Ending December 31,		
2014	$ 78,812	$ 16,011
2015	274,852	45,369
2016	182,022	23,784
2017	103,367	10,365
2018	48,476	3,345
Thereafter	12,997	467

	$ 700,526	$ 99,341

As of September 30, 2014 and December 31, 2013, the Company maintained total finance receivables which were on a non-accrual basis of $1.9 million and $1.7 million, respectively. As of September 30, 2014 and December 31, 2013, the Company had total finance receivables in which the terms of the original agreements had been renegotiated in the amount of $1.1 million and $0.8 million, respectively. (See Note 4 for income recognition on leases and loans and additional asset quality information.)

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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, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Year Ended December 31, 2013
	(Dollars in thousands)				
Allowance for credit losses, beginning of period	$ 7,725	$ 6,919	$ 8,467	$ 6,488	$ 6,488
Charge-offs	(2,707)	(2,688)	(8,446)	(7,108)	(9,499)
Recoveries	647	541	1,788	1,335	1,861
Net charge-offs	(2,060)	(2,147)	(6,658)	(5,773)	(7,638)
Provision for credit losses	2,706	2,303	6,562	6,360	9,617
Allowance for credit losses, end of period[1]	$ 8,371	$ 7,075	$ 8,371	$ 7,075	$ 8,467
Annualized net charge-offs to average total finance receivables [2]	1.36%	1.55%	1.48%	1.45%	1.41%
Allowance for credit losses to total finance receivables, end of period [2]	1.36%	1.23%	1.36%	1.23%	1.42%
Average total finance receivables [2]	$ 608,290	$ 555,422	$ 599,208	$ 529,578	$ 540,717
Total finance receivables, end of period [2]	$ 616,916	$ 573,325	$ 616,916	$ 573,325	$ 595,253
Delinquencies greater than 60 days past due	$ 3,290	$ 2,941	$ 3,290	$ 2,941	$ 3,204
Delinquencies greater than 60 days past due [3]	0.47%	0.45%	0.47%	0.45%	0.47%
Allowance for credit losses to delinquent accounts greater than 60 days past due [3]	254.44%	240.56%	254.44%	240.56%	264.26%
Non-accrual leases and loans, end of period	$ 1,903	$ 1,697	$ 1,903	$ 1,697	$ 1,665
Renegotiated leases and loans, end of period	$ 1,130	$ 867	$ 1,130	$ 867	$ 815

(1)

At September 30, 2014, December 31, 2013 and September 30, 2013, there was no allowance for credit losses allocated to loans.

(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 121 days. 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, 2014, December 31, 2013 and September 30, 2013, there were no finance receivables past due 90 days or more and still accruing.

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Net charge-offs for the three-month period ended September 30, 2014 were $2.1 million (1.36% of average total finance receivables on an annualized basis), compared to $2.6 million (1.71% of average total finance receivables on an annualized basis) for the three-month period ended June 30, 2014 and $2.1 million (1.55% of average total finance receivables on an annualized basis) for the three-month period ended September 30, 2013.

NOTE 5 Other Assets

Other assets are comprised of the following:

	September 30, 2014	December 31, 2013
	(Dollars in thousands)	
Accrued fees receivable	$ 2,141	$ 2,062
Deferred transaction costs	58	110
Prepaid expenses	1,218	2,011
Income taxes receivable		2,580
Other	3,240	3,414
	$ 6,657	$ 10,177

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 of Utah and surrounding states. 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, 2014, MBB had an unfunded commitment of $0.7 million for this activity. Unless renewed prior to termination, MBB s one-year commitment to the consortium will expire in September 2015.

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, 2014, the Company leases all five 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; and Sherwood, Oregon. These lease commitments are accounted for as operating leases. The Company has entered into several capital leases to finance corporate property and equipment.

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The following is a schedule of future minimum lease payments for capital and operating leases as of September 30, 2014:

	Future Minimum Lease Payment Obligations		
Period Ending December 31,	Capital Leases	Operating Leases	Total
	(Dollars in thousands)		
2014	$ 25	$ 279	$ 304
2015	102	1,455	1,557
2016	102	1,472	1,574
2017	77	1,479	1,556
2018		1,424	1,424
Thereafter		2,058	2,058
Total minimum lease payments	$ 306	$ 8,167	$ 8,473
Less: amount representing interest	(25)		
Present value of minimum lease payments	$ 281		

In February 2013, the Company extended its lease agreement on its executive offices in Mount Laurel, New Jersey. The original expiration date of May 2013 was extended to May 2020, with an expected obligation of approximately $1.1 million per year. Concurrently, the Company also entered into a lease agreement for an additional 9,700 square feet at the same location, which commenced in June 2014 and expires in May 2020. The expected annual obligation under such lease is approximately $0.2 million per year. These obligations are included in the table above.

In July 2014, the Company extended its lease agreement on its office in Salt Lake City, Utah. The extended term will commence in November 2014 and expire in December 2020, with an expected obligation of approximately $0.1 million per year.

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, 2014, money market deposit accounts totaled $47.7 million.

As of September 30, 2014, the remaining scheduled maturities of certificates of deposits are as follows:

	Scheduled Maturities

		(Dollars in thousands)
Period Ending December 31,		
2014	$	53,625
2015		201,780
2016		120,249
2017		76,533
2018		22,329
Thereafter		12,355
Total	$	486,871

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Certificates of deposits are time deposits 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, 2014 was 0.89%.

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 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability at the measurement date (exit price). 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, 2014 and December 31, 2013:

	September 30, 2014		December 31, 2013	
	Fair Value Measurements Using		Fair Value Measurements Using	
	Level 1	Level 2	Level 1	Level 2
	(Dollars in thousands)			

Assets				
Securities available for sale	$ 3,235	$ 2,358	$ 3,140	$ 2,247

At this time, the Company has not elected to report any assets and 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.

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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.

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.

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

	September 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Dollars in thousands)			
Financial Assets				
Cash and cash equivalents	$ 104,211	$ 104,211	$ 85,653	$ 85,653
Restricted interest-earning deposits with banks	945	945	1,273	1,273
Securities available for sale	5,593	5,593	5,387	5,387
Loans	1,173	1,173	954	954
Financial Liabilities				
Deposits	534,556	533,552	503,038	502,937

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

(a) Cash and Cash Equivalents

The carrying amounts of the Company s cash and cash equivalents approximate fair value as of September 30, 2014 and December 31, 2013, 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.

(b) Restricted Interest-Earning Deposits with Banks

The Company maintains 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 earn a floating market rate of interest which results in a fair value approximating the carrying amount at September 30, 2014 and December 31, 2013. This fair value measurement is classified as Level 1.

(c) 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.

(d) Loans

Loans are primarily comprised of 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 of Utah and surrounding states. Such loans help MBB satisfy its obligations under the Community Reinvestment Act of 1977. The fair value of the Company s loans approximates the carrying amount at September 30, 2014 and December 31, 2013. This estimate was based on recent comparable sales transactions with consideration of current market rates. This fair value measurement is classified as Level 2.

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(e) 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.

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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,	
	2014	2013	2014	2013
	(Dollars in thousands, except per-share data)			
Basic EPS				
Net income	$ 4,904	$ 4,687	$ 14,483	$ 12,805
Less: net income allocated to participating securities	(142)	(150)	(416)	(458)
Net income allocated to common stock	$ 4,762	$ 4,537	$ 14,067	$ 12,347
Weighted average common shares outstanding	12,865,421	12,937,665	12,908,168	12,873,139
Less: Unvested restricted stock awards considered participating securities	(377,453)	(508,600)	(369,396)	(507,112)
Adjusted weighted average common shares used in computing basic EPS	12,487,968	12,429,065	12,538,772	12,366,027
Basic EPS	$ 0.38	$ 0.37	$ 1.12	$ 1.00
Diluted EPS				
Net income allocated to common stock	$ 4,762	$ 4,537	$ 14,067	$ 12,347
Adjusted weighted average common shares used in computing basic EPS	12,487,968	12,429,065	12,538,772	12,366,027
Add: Effect of dilutive stock options	51,749	87,121	57,368	93,023

Adjusted weighted average common shares used in computing diluted EPS		12,539,717		12,516,186		12,596,140		12,459,050
Diluted EPS	$	0.38	$	0.36	$	1.12	$	0.99

For the three-month periods ended September 30, 2014 and September 30, 2013, options to purchase 15,698 and 23,098 shares of common stock were not considered in the computation of potential common shares for purposes of diluted EPS, since the exercise prices of the options were greater than the average market price of the Company s common stock for the respective periods.

For the nine-month periods ended September 30, 2014 and September 30, 2013, options to purchase 15,698 and 23,098 shares of common stock were not considered in the computation of potential common shares for purposes of diluted EPS, since the exercise prices of the options were greater than the average market price of the Company s common stock for the respective periods.

NOTE 10 Stockholders Equity

Stockholders Equity

On July 29, 2014, the Company s Board of Directors approved a stock repurchase plan. Under this program, 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, in block trades or otherwise. 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, 2014, the Company purchased 97,507 and 211,391 shares of its common stock at an average cost of $19.08 and $19.39, respectively. During the three-month period ended September 30, 2013, the Company did not repurchase any shares of its common stock in the open market. The Company purchased 231 shares of its common stock at an average cost of $18.52 during the nine month period ended September 30, 2013. At September 30, 2014, the Company had $13.4 million remaining in its stock repurchase plan authorized by the Board of Directors.

In addition to the repurchases described above, participants in the Company s 2003 Equity Compensation Plan, as amended (the 2003 Plan) and the Company s 2014 Equity Compensation Plan (approved by the Company s shareholders on June 3, 2014) (the 2014 Plan and, together with the 2003 Plan, the Equity Plans) may have shares withheld to cover income taxes. There were 3,933 and 70,210 shares repurchased to cover income tax withholding in connection with shares granted under the Equity Plans during each of the three- and nine-month periods ended September 30, 2014, at average per-share costs of $19.11 and $22.72, respectively. There were 3,447 and 53,187 shares repurchased to cover income tax withholding in connection with shares granted under the 2003 Plan during the three- and nine-month periods ended September 30, 2013, at average per-share costs of $22.52 and $21.61, 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.

MBB is subject to capital adequacy guidelines issued by the Federal Financial Institutions Examination Council (the FFIEC). 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 FFIEC and/or the U.S. Congress may determine to increase capital requirements in the future due to the current economic environment. Under the rules and regulations of the FFIEC, at least half of a bank 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 FFIEC has also adopted minimum leverage ratios for banks, 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 banks are expected to maintain capital in excess of the minimum standards. The Company plans to provide the necessary capital to maintain MBB at well-capitalized status as defined by banking regulations. MBB s Tier 1 Capital balance at September 30, 2014 was $111.2 million, which met all capital requirements to which MBB is subject and qualified MBB for well-capitalized status. Bank holding companies are required to comply with the Federal Reserve Board s risk-based capital guidelines that require a minimum ratio of total capital to risk-weighted assets of 8%. At least half of the total capital is required to be Tier 1 Capital. In addition to the risk-based capital guidelines, the Federal Reserve Board has adopted a minimum leverage

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capital ratio under which a bank holding company must maintain a ratio of Tier 1 Capital to average total consolidated assets of at least 3% in the case of a bank holding company which has the highest regulatory examination rating and is not contemplating significant growth or expansion. All other bank holding companies are expected to maintain a leverage capital ratio of at least 4%. At September 30, 2014, Marlin Business Services Corp. also exceeded its regulatory capital requirements and was considered well-capitalized as defined by federal banking regulations.

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The following table sets forth the Tier 1 leverage ratio, Tier 1 risk-based capital ratio and total risk-based capital ratio for Marlin Business Services Corp. and MBB at September 30, 2014.

	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.	23.06%	$ 170,081	4%	$ 29,506	5%	$ 36,882
Marlin Business Bank	16.70%	$ 111,197	5%	$ 33,290	5%	$ 33,290
Tier 1 Risk-based Capital						
Marlin Business Services Corp.	26.11%	$ 170,081	4%	$ 26,061	6%	$ 39,091
Marlin Business Bank	17.97%	$ 111,197	6%	$ 37,125	6%	$ 37,125
Total Risk-based Capital						
Marlin Business Services Corp.	27.36%	$ 178,228	8%	$ 52,121	10%	$ 65,152
Marlin Business Bank	19.22%	$ 118,935	15%	$ 92,814	10%[(1)]	$ 61,876

(1) MBB is required to maintain well-capitalized status and must also maintain a total risk-based capital ratio greater than 15% pursuant to an agreement entered into by and among MBB, the Company, MLC and the FDIC in conjunction with the opening of MBB (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;

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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 19.22% at September 30, 2014 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.

In addition to the Company s regular quarterly dividend, the Company s Board of Directors declared a special cash dividend of $2.00 per share on September 4, 2013. The special dividend was paid on September 26, 2013 to shareholders of record on the close of business on September 16, 2013, which resulted in a dividend payment of approximately $26.0 million.

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 or restricted stock grants is 1,200,000 with not more than 1,000,000 of such shares available for issuance as restricted stock grants. There were 1,088,070 shares available for future grants under the 2014 Plan as of September 30, 2014, of which 888,070 shares were available to be issued as restricted stock grants.

Total stock-based compensation expense was $0.3 million for the three-month period ended September 30, 2014 and $0.4 million for the three-month period ended September 30, 2013. Total stock-based compensation expense was $1.6 million for both nine-month periods ended September 30, 2014 and September 30, 2013, respectively. Excess tax benefits from stock-based payment arrangements increased cash provided by financing activities and decreased cash provided by operating activities by $0.7 million and $1.0 million for the nine-month periods ended September 30, 2014 and September 30, 2013, respectively.

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 provide for accelerated vesting if there is a change in control as defined in the 2014 Plan. 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, 2014 and September 30, 2013, respectively.

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A summary of option activity for the nine-month period ended September 30, 2014 follows:

Options	Number of Shares	Weighted Average Exercise Price Per Share
Outstanding, December 31, 2013	218,917	$ 10.40
Granted		
Exercised	(4,811)	15.65
Forfeited		
Expired	(11,097)	13.10
Outstanding, September 30, 2014	203,009	10.13

During the three-month period ended September 30, 2014 the Company recognized no compensation expense related to options. There was less than $0.1 million of compensation expense recognized related to options for the three-month period ended September 30, 2013. During each of the nine-month periods ended September 30, 2014 and September 30, 2013, the Company recognized total compensation expense related to options of less than $0.1 million.

There were 1,039 and 81,230 stock options exercised during the three-month periods ended September 30, 2014 and September 30, 2013, respectively. The total pretax intrinsic values of stock options exercised were less than $0.1 million for the three-month periods ended September 30, 2014. The total pretax intrinsic values of stock options exercised were $1.1 million for the three-month periods ended September 30, 2013.

The total pretax intrinsic values of stock options exercised were less than $0.1 million for the nine-month periods ended September 30, 2014. The total pretax intrinsic values of stock options exercised were $1.6 million for the nine-month periods ended September 30, 2013. There were no related tax benefits realized from the exercise of stock options for the nine-month period ended September 30, 2014. The related tax benefits realized from the exercise of stock options for the nine-month period ended September 30, 2013 were $0.4 million.

The following table summarizes information about the stock options outstanding and exercisable as of September 30, 2014:

	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)
$7.17 - 9.52	136,905	0.6	$ 9.03	$ 1,272	59,373	0.8	$ 8.38	$ 590
$12.08 - 12.41	65,757	2.6	12.39	390	50,059	2.6	12.38	297
$14.00	347	0.1	14.00	1	347	0.1	14.00	1
	203,009	1.2	10.13	$ 1,663	109,779	1.6	10.22	$ 888

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the Company s closing stock price of $18.32 as of September 30, 2014, which would have been received by the option holders had all option holders exercised their options as of that date.

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As of September 30, 2014, 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, 2014, $0.5 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 1.4 years.

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 provide for accelerated vesting if there is a change in control as defined in the 2014 Plan.

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, 2014, 44,979 shares may be subject to accelerated vesting based on individual performance factors; no shares have vesting contingent upon performance factors. Vesting was accelerated in 2013 and 2014 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, 2014:

Non-vested restricted stock	Shares	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2013	494,462	$ 14.67
Granted	114,493	18.71
Vested	(222,741)	14.64
Forfeited	(19,185)	19.46
Outstanding at September 30, 2014	367,029	15.70

During the three-month periods ended September 30, 2014 and September 30, 2013, the Company granted restricted stock awards with grant date fair values totaling $0.1 million and $0.6 million, respectively. During the nine-month periods ended September 30, 2014 and September 30, 2013, the Company granted restricted stock awards with grant date fair values totaling $2.1 million and $3.2 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 million of compensation expense related to restricted stock for the three-month periods ended September 30, 2014 and September 30, 2013, respectively. The Company recognized $1.6 million of compensation expense related to restricted stock for both nine-month periods ended September 30, 2014 and September 30, 2013, respectively.

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Of the $1.6 million total compensation expense related to restricted stock for the nine-month period ended September 30, 2014, approximately $0.6 million related to accelerated vesting during the first quarter of 2014, 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, 2013, approximately $0.4 million related to accelerated vesting during the first quarter of 2013, which was also based on the achievement of certain performance criteria determined annually.

As of September 30, 2014, there was $3.9 million of unrecognized compensation cost related to non-vested restricted stock compensation scheduled to be recognized over a weighted average period of 4.1 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 1.2 years. In addition, certain of the awards granted may result in the issuance of 44,198 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 both three-month periods ended September 30, 2014 and September 30, 2013 was $0.2 million, respectively. The fair value of shares that vested during the nine-month periods ended September 30, 2014 and September 30, 2013 was $5.0 million and $3.5 million, respectively.

NOTE 12 Subsequent Events

The Company declared a dividend of $0.125 per share on October 30, 2014. The quarterly dividend, which is expected to result in a dividend payment of approximately $1.6 million, is scheduled to be paid on November 20, 2014 to shareholders of record on the close of business on November 10, 2014. It represents the Company s thirteenth consecutive quarterly cash dividend. The payment of future dividends will be subject to approval by the Company s Board of Directors.

On October 3, 2014, the Company s affiliate, Marlin Receivables Corp. (MRC), amended its $75.0 million borrowing facility. The amendment changed the maturity date of the facility from October 9, 2014 to January 7, 2015.

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, 2013 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 th 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;

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- 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, 2013 filed with the SEC.

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, 2014, our lease portfolio consisted of 77,763 accounts with an average original term of 47 months and average original transaction size of approximately $13,400.

At September 30, 2014, we had $740.2 million in total assets. Our assets are substantially comprised of our net investment in leases and loans which totaled $618.7 million at September 30, 2014.

We generally reach our lessees through a network of independent equipment dealers, equipment manufacturers 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,				
	2014	2013	2012	2011	2010	2009
Number of sales account executives	116	124	114	93	87	38
Number of originating sources[(1)]	1,108	1,173	1,117	827	604	465

(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 operating 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, 2014, 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.

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 68% of our lease portfolio at September 30, 2014 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, raised nationally by MBB. The Company also maintains a variable-rate long-term loan facility. As of September 30, 2014 the variable-rate long term loan facility did not have a balance. 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, 2014, total MBB deposits were $534.6 million, compared to $503.0 million at December 31, 2013. We had no outstanding secured borrowings as of both September 30, 2014 and December 31, 2013.

Fixed rate leases not funded with deposits may be financed with variable-rate funding sources, therefore, our earnings may be exposed to interest rate risk should interest rates rise. We generally benefit in times of falling and low interest rates. In contrast to previous facilities, our current long-term loan facility does not require annual refinancing.

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, 2014.

Although MBB primarily issues FDIC-insured deposits to fulfill its current role 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 our reinsurance activities conducted through its wholly-owned subsidiary, AssuranceOne, Ltd. (AssuranceOne).

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. Preparation of these financial statements requires us to make estimates and judgments that affect reported amounts of assets, liabilities, revenues and expenses and affect related disclosure of contingent assets and liabilities at the date of our financial statements. On an ongoing basis, we evaluate our estimates, including credit losses, residuals, initial direct costs and fees, other fees, the fair value of financial instruments and the realization of deferred tax assets. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties. Our consolidated financial statements are based on the selection and application of critical accounting policies, the most significant of which are described below.

Income recognition. Interest income is recognized under the effective interest method. The effective interest method of income recognition applies a constant rate of interest equal to the internal rate of return on the lease.

The Company s lease portfolio consists of homogenous small balance accounts with an average balance less than $10,000 across a large cross section of credit variables such as state, equipment type, obligor, vendor and industry category. These leases generally have similar credit risk characteristics and as a result the Company evaluates the impairment of the lease portfolio on a pooled basis. The Company s key credit quality indicator is delinquency status. Based on the historical payment behavior of the Company s lease portfolio as a whole, payments are considered reasonably assured when a lease s delinquency status is less than 90 days. Therefore, when a lease or loan is 90 days or more delinquent, the contract is classified as non-accrual and interest income recognition is discontinued. Interest income recognition resumes on a contract when the lessee makes payments sufficient to bring the contract s status to less than 90 days delinquent.

Fee income consists of fees for delinquent lease and loan payments, cash collected on early termination of leases and net residual income. 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 a lease s term. Residual income is recognized as earned.

Fee income from delinquent lease payments is recognized on an accrual basis based on anticipated collection rates. At a minimum of every quarter, an analysis of anticipated collection rates is performed based on updates to collection experience. Adjustments in anticipated collection rate assumptions are made as needed based on this analysis. Other fees are recognized when received.

Insurance income is recognized on an accrual basis as earned over the term of a lease. Generally, insurance payments that are 120 days or more past due are charged against income. Ceding commissions, losses and loss adjustment expenses are recorded in the period incurred and netted against insurance income.

Initial direct costs and fees. We defer initial direct costs incurred and fees received to originate our leases and loans in accordance with the Receivables Topic and the Nonrefundable Fees and Other Costs Subtopic of the FASB ASC. The initial direct costs and fees we defer are part of the net investment in leases and loans and are amortized to interest income using the effective interest method. We defer third-party commission costs as well as certain internal costs directly related to the origination activity. Costs subject to deferral include evaluating each prospective customer s financial condition, evaluating and recording guarantees and other security arrangements, negotiating terms, preparing and processing documents and closing each transaction. Estimates of costs subject to deferral are updated periodically, and no less frequently than each year. The fees we defer are documentation fees collected at inception. The realization of the deferred initial direct costs, net of fees deferred, is predicated on the net future cash flows generated by our lease and loan portfolios.

Lease residual values. A direct financing lease is recorded at the aggregate future minimum lease payments plus the estimated residual value less unearned income. Residual values are established at lease inception based on our estimate of the expected fair value of the equipment at the end of the lease term. Residual values may be realized at lease termination from lease extensions, sales or other dispositions of leased equipment. These estimates are based on industry data and management s experience.

The Company records an estimated residual value at lease inception for all fair market value and fixed purchase option leases based on a percentage of the equipment cost of the asset being leased. The percentages used depend on equipment type and term. In setting estimated residual values, the Company focuses its analysis primarily on the Company s total historical and expected realization statistics pertaining to sales of equipment. In subsequent evaluations for the impairment of the booked residual values, the Company reviews historical realization statistics including lease renewals and equipment sales. Anticipated renewal income is not included in the determination of fair value. However, it is one of the ways that fair value may be realized at the end of the lease term.

At the end of an original lease term, lessees may choose to purchase the equipment, renew the lease or return the equipment to the Company. The Company receives income from lease renewals when the lessee elects to retain the equipment longer than the original term of the lease. This income, net of appropriate periodic reductions in the estimated residual values of the related equipment, is included in fee income as net residual income.

When a lessee elects to return equipment at lease termination, the equipment is transferred to other assets at the lower of its basis or fair market value. The Company generally sells returned equipment to independent third parties, rather than leasing the equipment a second time. The Company does not maintain equipment in other assets for longer than 120 days. Any loss recognized on transferring equipment to other assets, and any gain or loss realized on the sale or disposal of equipment to a lessee or to others is included in fee income as net residual income.

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, to purchase the leased equipment or to return the leased equipment than it does to the equipment type. Management performs reviews of the estimated residual values and historic realization statistics no less frequently than quarterly and any impairment, if other than temporary, is recognized in the current period.

Allowance for credit losses. 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.

We generally evaluate our portfolios on a pooled basis, due to their composition of small balance, homogenous accounts with similar general credit risk characteristics, diversified among a large cross-section of variables including industry, geography, equipment type, obligor and vendor. We consider both quantitative and qualitative factors in determining the allowance for credit losses. Quantitative factors considered include a migration analysis stratified by industry classification, historic delinquencies and charge-offs, and a static pool analysis of historic recoveries. A migration analysis is a technique used to estimate the likelihood that an account will progress through the various delinquency stages and ultimately charge off. As part of our quantitative analysis we may also consider specifically identified pools of leases separately from the migration analysis, whenever certain identified pools are not expected to perform consistently with their credit characteristics or the portfolio as a whole. These lease pools may be analyzed for impairment separately from the migration analysis and a specific reserve established.

Qualitative factors that may result in further adjustments to the quantitative analysis include items such as forecasting uncertainties, changes in the composition of our lease and loan portfolios, seasonality, economic or business conditions and emerging trends, business practices or policies at the reporting date that are different from the periods used in the quantitative analysis. For example, underwriting guidelines may be adjusted from time to time in response to current economic conditions and/or portfolio performance trends. Such underwriting adjustments may be made to a variety of credit attributes, such as transaction size, asset type, industry (SIC code), geographic location, time in business and commercial credit scores. The impact of these underwriting adjustments is considered as one of the components in calculating the qualitative component of the allowance for credit losses. There were no qualitative factors present for the period at September 30, 2014. The total adjustments due to all qualitative factors increased the allowance for credit losses by approximately $0.1 million at December 31, 2013.

The various factors used in the analysis are reviewed periodically, and no less frequently than quarterly. We then establish an allowance for credit losses for the projected probable net credit losses inherent in the portfolio based on this analysis. A provision is charged against earnings to maintain the allowance for credit losses at the appropriate level. Our policy is to charge-off against the allowance the estimated unrecoverable portion of accounts once they reach 121 days delinquent.

Our projections of probable net credit losses are inherently uncertain, and as a result we cannot predict with certainty the amount of such losses. Changes in economic conditions, the risk characteristics and composition of the portfolios, bankruptcy laws and other factors could impact our actual and projected net credit losses and the related allowance for credit losses. To the extent we add new leases and loans to our portfolios, or to the degree credit quality is worse than expected, we record expense to increase the allowance for credit losses for the estimated net losses inherent in our portfolios. Actual losses may vary from current estimates.

Stock-based compensation. We issue restricted shares to certain employees and directors as part of our overall compensation strategy. In previous years, we also issued options as part of our compensation strategy. The Compensation Stock Compensation Topic of the FASB ASC establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees, except for equity instruments held by employee share ownership plans.

The Company measures stock-based compensation cost at grant date, based on the fair value of the awards ultimately expected to vest. Stock-based compensation expense is recognized on a straight-line basis over the service period. We generally use the Black-Scholes valuation model to measure the fair value of our stock options utilizing various assumptions with respect to expected holding period, risk-free interest rates, stock price volatility and dividend yield. The assumptions are based on subjective future expectations combined with management judgment.

As required by U.S. GAAP, the Company uses its judgment in estimating the amount of awards that are expected to be forfeited, with subsequent revisions to the assumptions if actual forfeitures differ from those estimates. 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.

Nonforfeitable dividends paid on shares of restricted stock are recorded to retained earnings for shares that are expected to vest and to compensation expense for shares that are not expected to vest.

Income taxes. The Income Taxes Topic of the FASB ASC requires the use of the asset and liability method under which deferred taxes are determined based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities, given the provisions of the enacted tax laws. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

Significant management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any necessary valuation allowance recorded against net deferred tax assets. The process involves summarizing temporary differences resulting from the different treatment of items such as leases for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the Consolidated Balance Sheets. Our management then assesses the likelihood that deferred tax assets will be recovered from future taxable income or tax carry-back availability and, to the extent our management believes recovery is not likely, a valuation allowance is established. To the extent that we establish a valuation allowance in a period, an expense is recorded within the tax provision in the Consolidated Statements of Operations.

At September 30, 2014, there have been no material changes to the liability for uncertain tax positions and there are no significant unrecognized tax benefits. The periods subject to general examination for the Company s federal return include the 2006 tax year to the present. The Company files state income tax returns in various states which may have different statutes of limitations. Generally, state income tax returns for years 2006 through the present are subject to examination. As of September 30, 2014, the Company has a net payable balance of $0.4 million.

The Company records penalties and accrued interest related to taxes, including penalties and interest related to uncertain tax positions, in income tax expense. Such adjustments have historically been minimal and immaterial to our financial results.

RESULTS OF OPERATIONS

Comparison of the Three-Month Periods Ended September 30, 2014 and September 30, 2013

Net income. Net income of $4.9 million was reported for the three-month period ended September 30, 2014, resulting in diluted EPS of $0.38, compared to net income of $4.7 million and diluted EPS of $0.36 for the three-month period ended September 30, 2013.

Return on average assets was 2.67% for the three-month period ended September 30, 2014, compared to a return of 2.73% for the three-month period ended September 30, 2013. Return on average equity was 11.50% for the three-month period ended September 30, 2014, compared to a return of 10.32% for the three-month period ended September 30, 2013.

Overall, our average net investment in total finance receivables for the three-month period ended September 30, 2014 increased 9.5% to $608.3 million, compared to $555.4 million for the three-month period ended September 30, 2013.

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, 2014 was $618.7 million, an increase of $21.6 million, or 3.6%, from $597.1 million at December 31, 2013.

During the three months ended September 30, 2014, we generated 6,130 new leases with equipment cost of $82.5 million, compared to 6,223 new leases with equipment cost of $86.1 million generated for the three months ended September 30, 2013. Sales staffing levels increased from 115 sales account executives at September 30, 2013 to 116 sales account executives at September 30, 2014. Approval rates remained stable at 65% for the quarters ended September 30, 2014 and September 30, 2013.

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For the three-month period ended September 30, 2014 compared to the three-month period ended September 30, 2013, net interest and fee income increased $0.6 million, or 3.2%, primarily due to a 9.5% increase in average total finance receivables. The provision for credit losses increased $0.4 million, or 17.4%, to $2.7 million for the three-month period ended September 30, 2014 from $2.3 million for the same period in 2013, primarily due to seasoning of the portfolio and the impact of portfolio growth.

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, 2014 and September 30, 2013.

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	Three Months Ended September 30, 2014			2013		
	(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	$ 103,480	$ 31	0.12%	$ 97,095	$ 18	0.07%
Restricted interest-earning deposits with banks	977	-	0.01	1,720	-	0.01
Securities available for sale	5,580	30	2.18	5,721	37	2.61
Net investment in leases[3]	607,055	16,633	10.96	554,783	16,223	11.70
Loans receivable[3]	1,235	11	3.68	640	8	4.64
Total interest-earning assets	718,327	16,705	9.30	659,959	16,286	9.87
Non-interest-earning assets:						
Cash and due from banks	354			1,789		
Property and equipment, net	2,544			2,122		
Property tax receivables	1,107			5,021		
Other assets[4]	11,494			17,260		
Total non-interest-earning assets	15,499			26,192		
Total assets	$ 733,826			$ 686,151		
Interest-bearing liabilities:						
Certificate of Deposits[5]	$ 489,360	$ 1,203	0.98%	472,253	$ 1,017	0.86%
Money Market Deposits[5]	45,042	29	0.26			
Long-term borrowings[5]		18		154	19	48.44
Total interest-bearing liabilities	534,402	1,250	0.94	472,407	1,036	0.88
Non-interest-bearing liabilities:						
Sales and property taxes payable	2,243			6,964		
Accounts payable and accrued expenses	7,909			6,556		
Net deferred income tax liability	18,674			18,479		
Total non-interest-bearing liabilities	28,826			31,999		
Total liabilities	563,228			504,406		
Stockholders equity	170,598			181,745		
Total liabilities and stockholders equity	$ 733,826			$ 686,151		

Net interest income	$ 15,455	$ 15,250
Interest rate spread(6)	8.36%	8.99%
Net interest margin(7)	8.61%	9.24%
Ratio of average interest-earning assets to average interest-bearing liabilities	134.42%	139.70%

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

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(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.

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

	Three Months Ended September 30, 2014 Compared To Three Months Ended September 30, 2013 Increase (Decrease) Due To:		
	Volume[1]	Rate[1]	Total
	(Dollars in thousands)		
Interest income:			
Interest-earning deposits with banks	$ 1	$ 12	$ 13
Restricted interest-earning deposits with banks			
Securities available for sale	(1)	(6)	(7)
Net investment in leases	1,471	(1,061)	410
Loans receivable	6	(3)	3
Total interest income	1,390	(971)	419
Interest expense:			
Certificate of Deposits	38	148	186
Money Market Deposits	29		29
Long-term borrowings	(1)		(1)
Total interest expense	143	71	214
Net interest income	1,296	(1,091)	205

(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.

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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, 2014 and September 30, 2013.

	Three Months Ended September 30, 2014	2013
	(Dollars in thousands)	
Interest income	$ 16,705	$ 16,286
Fee income	3,881	3,410
Interest and fee income	20,586	19,696
Interest expense	1,250	1,036
Net interest and fee income	$ 19,336	$ 18,660
Average total finance receivables[(1)]	$ 608,290	$ 555,422
Annualized percent of average total finance receivables:		
Interest income	10.98%	11.73%
Fee income	2.55	2.46
Interest and fee income	13.53	14.19
Interest expense	0.82	0.75
Net interest and fee margin	12.71%	13.44%

(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 $0.6 million, or 3.2%, to $19.3 million for the three months ended September 30, 2014 from $18.7 million for the three months ended September 30, 2013. The annualized net interest and fee margin decreased 73 basis points to 12.71% in the three-month period ended September 30, 2014 from 13.44% for the same period in 2013.

Interest income, net of amortized initial direct costs and fees, increased $0.4 million, or 2.5%, to $16.7 million for the three-month period ended September 30, 2014 from $16.3 million for the three-month period ended September 30, 2013. The increase in interest income was principally due to the 9.5% increase in average total finance receivables, which increased $52.9 million to $608.3 million at September 30, 2014 from $555.4 million at September 30, 2013, partially offset by a decrease in average yield of 75 basis points. 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, primarily due to a change in mix of more recent origination types toward larger program opportunities. The weighted average implicit interest rate on new finance receivables originated decreased 80 basis points to 11.06% for the three-month period ended September 30, 2014, compared to 11.86% for the three-month period ended September 30, 2013.

Fee income increased $0.5 million to $3.9 million for the three-month period ended September 30, 2014, compared to $3.4 million for the three-month period ended September 30, 2013. Fee income included approximately $0.9 million and $0.7 of net residual income for the three-month periods ended September 30, 2014 and September 30, 2013, respectively.

Fee income also included approximately $2.4 million in late fee income for the three-month period ended September 30, 2014, which increased 4.3% from $2.3 million for the three-month period ended September 30, 2013. The increase in late fee income was consistent with the increase in average total finance receivables.

Fee income, as an annualized percentage of average total finance receivables, increased 9 basis points to 2.55% for the three-month period ended September 30, 2014 from 2.46% for the same period in 2013. Late fees remained the largest component of fee income at 1.55% as an annualized percentage of average total finance receivables for the three-month period ended September 30, 2014, compared to 1.67% for the three-month period ended September 30, 2013. As an annualized percentage of average total finance receivables, net residual income was 0.58% for the three-month period ended September 30, 2014, compared to 0.49% for the three-month period ended September 30, 2013.

Interest expense increased $0.3 million to $1.3 million for the three-month period ended September 30, 2014 from $1.0 million for the three-month period ended September 30, 2013. The increase was primarily due to an increase of deposits quarter over quarter. Interest expense, as an annualized percentage of average total finance receivables, increased 7 basis points to 0.82% for the three-month period ended September 30, 2014, from 0.75% for the same period in 2013.

For the three months ended September 30, 2014, there were no borrowings outstanding, compared to an average of $0.2 million at a weighted average interest rate of 3.06% for the same period in 2013.

Our wholly-owned subsidiary, MBB, serves as our primary funding source. MBB raises fixed-rate FDIC-insured deposits via the brokered certificates of deposit market, on a direct basis, and through the MMDA Product. At September 30, 2014, brokered certificates of deposit represented approximately 55% of total deposits, while approximately 36% of total deposits were obtained from direct channels, and 9% were in the MMDA Product. Interest expense on deposits was $1.2 million, or 0.92% as an annualized percentage of average deposits, for the three-month period ended September 30, 2014. The average balance of deposits was $534.4 million for the three-month period ended September 30, 2014. Interest expense on deposits was $1.0 million, or 0.86% as an annualized percentage of average deposits, for the three-month period ended September 30, 2013. The average balance of deposits was $472.3 million for the three-month period ended September 30, 2013.

Insurance income. Insurance income increased $0.1 million to $1.3 million for the three-month period ended September 30, 2014 from $1.2 million for the three-month period ended September 30, 2013, primarily due to higher total finance receivables.

Other income. Other income was $0.4 million for each of the three-month periods ended September 30, 2014 and September 30, 2013. Other income includes various administrative transaction fees and fees received from lease syndications.

Salaries and benefits expense. Salaries and benefits expense decreased $0.3 million, or 4.5%, to $6.3 million for the three-month period ended September 30, 2014 from $6.6 million for the same period in 2013. The decrease was primarily due to reduced incentive compensation expense. Salaries and benefits expense, as an annualized percentage of average total finance receivables, was 4.15% for the three-month period ended September 30, 2014 compared with 4.75% for the same period in 2013. Total personnel increased to 279 at September 30, 2014 from 276 at September 30, 2013.

General and administrative expense. General and administrative expense increased $0.3 million, or 8.6%, to $3.8 million for the three months ended September 30, 2014 from $3.5 million for the same period in 2013. General and administrative expense as an annualized percentage of average total finance receivables was 2.51% for the three-month period ended September 30, 2014, compared to 2.50% for the three-month period ended September 30, 2013. Selected major components of general and administrative expense for the three-month period ended September 30, 2014 included $0.7 million of premises and occupancy expense, $0.4 million of audit and tax compliance expense, $0.4 million of data processing expense and $0.3 million of marketing expense. In comparison, selected major components of general and administrative expense for the three-month period ended September 30, 2013 included $0.7 million of premises and occupancy expense, $0.3 million of audit and tax compliance expense, $0.4 million of data processing expense and $0.2 million of marketing expense.

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 $0.3 million for each of the three-month periods ended September 30, 2014 and September 30, 2013.

Provision for credit losses. The provision for credit losses increased $0.4 million, or 17.4%, to $2.7 million for the three months ended September 30, 2014 from $2.3 million for the same period in 2013, primarily due to growth in the portfolio and stable delinquency ratios. Additional factors that have an impact on the provision for credit losses include the ongoing seasoning of the portfolio as reflected in the mix of origination vintages and the mix of credit profiles because they impact both the charge-offs and the allowance for credit losses. 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 $2.1 million for each of the three-month periods ended September 30, 2014 and September 30, 2013. Net charge-offs as an annualized percentage of average total finance receivables decreased to 1.36% during the three-month period ended September 30, 2014, from 1.55% for the same period in 2013. The allowance for credit losses decreased to approximately $8.4 million at September 30, 2014, a decrease of $0.1 million from $8.5 million at December 31, 2013.

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 the three-month period ended September 30, 2014, compared to an expense of $2.9 million for the same period in 2013. The change is primarily attributable to the change in pretax income recorded for the three-month period ended September 30, 2014. Our effective tax rate, which is a combination of federal and state income tax rates, was approximately 38.3% for the three-month period ended September 30, 2014, compared to 38.0% for the three-month period ended September 30, 2013.

Comparison of the Nine-Month Periods Ended September 30, 2014 and September 30, 2013

Net income. Net income of $14.5 million was reported for the nine-month period ended September 30, 2014, resulting in diluted EPS of $1.12, compared to net income of $12.8 million and diluted EPS of $0.99 for the nine-month period ended September 30, 2013.

Return on average assets was 2.65% for the nine-month period ended September 30, 2014, compared to a return of 2.64% for the nine-month period ended September 30, 2013. Return on average equity was 11.56% for the nine-month period ended September 30, 2014, compared to a return of 9.56% for the nine-month period ended September 30, 2013.

Overall, our average net investment in total finance receivables for the nine-month period ended September 30, 2014 increased 13.1% to $599.2 million, compared to $529.6 million for the nine-month period ended September 30, 2013. 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, 2014 was $618.7 million, an increase of $21.6 million, or 3.6%, from $597.1 million at December 31, 2013.

During the nine months ended September 30, 2014, we generated 17,938 new leases with equipment cost of $245.4 million, compared to 19,447 new leases with equipment cost of $258.5 million generated for the nine months ended September 30, 2013. Sales staffing levels increased from 115 sales account executives at September 30, 2013 to 116 sales account executives at September 30, 2014. Approval rates remained stable at 66% for the nine-month periods ended September 30, 2014 and September 30, 2013.

For the nine-month period ended September 30, 2014 compared to the nine-month period ended September 30, 2013, net interest and fee income increased $4.2 million, or 7.9%, primarily due to a 13.1% increase in average total finance receivables, combined with a lower cost of funds on liabilities. The provision for credit losses increased $0.2 million, or 3.1%, to $6.6 million for the nine-month period ended September 30, 2014 from $6.4 million for the same period in 2013, primarily due to seasoning of the portfolio and by the impact of portfolio growth.

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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, 2014 and September 30, 2013.

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	Nine Months Ended September 30, 2014			2013		
	(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	$ 108,829	$ 103	0.13%	$ 77,429	$ 57	0.10%
Restricted interest-earning deposits with banks	1,126		0.01	3,855		0.01
Securities available for sale	5,528	121	2.91	5,467	83	2.02
Net investment in leases(3)	597,976	49,920	11.13	529,008	46,914	11.82
Loans receivable(3)	1,233	38	4.13	571	21	4.79
Total interest-earning assets	714,692	50,182	9.36	616,330	47,075	10.18
Non-interest-earning assets:						
Cash and due from banks	370			1,031		
Property and equipment, net	2,406			1,998		
Property tax receivables	433			3,500		
Other assets(4)	11,672			23,743		
Total non-interest-earning assets	14,881			30,272		
Total assets	$ 729,573			$ 646,602		
Interest-bearing liabilities:						
Certificate of Deposits(5)	$ 501,348	$ 3,533	0.94%	432,433	$ 3,060	0.94%
Money Market Deposits	32,212	61	0.25			
Long-term borrowings(5)	0	53		4,111	398	12.92
Total interest-bearing liabilities	533,560	3,647	0.91	436,544	3,458	1.05
Non-interest-bearing liabilities:						
Sales and property taxes payable	2,565			6,402		
Accounts payable and accrued expenses	8,063			6,331		
Net deferred income tax liability	18,347			18,757		
Total non-interest-bearing liabilities	28,975			31,490		
Total liabilities	562,535			468,034		
Stockholders equity	167,038			178,568		
Total liabilities and stockholders equity	$ 729,573			$ 646,602		

Net interest income	$ 46,535	$ 43,617
Interest rate spread[6]	8.45%	9.13%
Net interest margin[7]	8.68%	9.44%
Ratio of average interest-earning assets to average interest-bearing liabilities	133.95%	141.18%

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

(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.

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

	Nine Months Ended September 30, 2014 Compared To Nine Months Ended September 30, 2013 Increase (Decrease) Due To:		
	Volume[1]	Rate[1]	Total
	(Dollars in thousands)		
Interest income:			
Interest-earning deposits with banks	$ 27	$ 19	$ 46
Securities available for sale	1	37	38
Net investment in leases	5,869	(2,863)	3,006
Loans receivable	21	(4)	17
Total interest income	7,110	(4,003)	3,107
Interest expense:			
Certificate of Deposits	486	(12)	473
Money Market Deposits	61	-	61
Long-term borrowings	(345)	-	(345)
Total interest expense	704	(515)	189
Net interest income	6,590	(3,672)	2,918

(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.

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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, 2014 and 2013.

	Nine Months Ended September 30, 2014	2013
	(Dollars in thousands)	
Interest income	$ 50,182	$ 47,075
Fee income	11,016	9,733
Interest and fee income	61,198	56,808
Interest expense	3,647	3,458
Net interest and fee income	$ 57,551	$ 53,350
Average total finance receivables(1)	$ 599,208	$ 529,578
Percent of average total finance receivables:		
Interest income	11.17%	11.85%
Fee income	2.45	2.45
Interest and fee income	13.62	14.30
Interest expense	0.81	0.87
Net interest and fee margin	12.81%	13.43%

(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 $4.2 million, or 7.9%, to $57.6 million for the nine months ended September 30, 2014 from $53.4 million for the nine months ended September 30, 2013. The annualized net interest and fee margin decreased 62 basis points to 12.81% in the nine-month period ended September 30, 2014 from 13.43% for the same period in 2013.

Interest income, net of amortized initial direct costs and fees, increased $3.1 million, or 6.6%, to $50.2 million for the nine-month period ended September 30, 2014 from $47.1 million for the nine-month period ended September 30, 2013. The increase in interest income was principally due to a 13.1% increase in average total finance receivables, which increased $69.6 million to $599.2 million at September 30, 2014 from $529.6 million at September 30, 2013, partially offset by a decrease in average yield of 68 basis points. 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, primarily due to a change in mix of more recent origination types toward larger program opportunities. The weighted average implicit interest rate on new finance receivables originated decreased 93 basis points to 11.23% for the nine-month period ended September 30, 2014, compared to 12.16% for the nine-month period ended September 30, 2013.

Fee income increased $1.3 million to $11.0 million for the nine-month period ended September 30, 2014, compared to $9.7 million for the nine-month period ended September 30, 2013. Fee income included approximately $2.2 million of net residual income for the nine-month period ended September 30, 2014 and $2.1 million for the nine-month period ended September 30, 2013.

Fee income also included approximately $7.2 million in late fee income for the nine-month period ended September 30, 2014, which increased 10.8% from $6.5 million for the nine-month period ended September 30, 2013. The increase in late fee income was primarily due to the increase in average total finance receivables. In addition, income related to early termination of leases was $1.6 million for the nine-month period ended September 30, 2014, compared to $1.1 million for the nine-month period ended September 30, 2013.

Fee income, as an annualized percentage of average total finance receivables, was 2.45% for each the nine-month periods ended September 30, 2014 and September 30, 2013. Late fees remained the largest component of fee income at 1.59% as an annualized percentage of average total finance receivables for the nine-month period ended September 30, 2014, compared to 1.64% for the nine-month period ended September 30, 2013. As an annualized percentage of average total finance receivables, net residual income was 0.49% for the nine-month period ended September 30, 2014, compared to 0.54% for the nine-month period ended September 30, 2013. As an annualized percentage of average total finance receivables, income related to early termination of leases was 0.36% for the nine-month period ended September 30, 2014, compared to 0.27% for the nine-month period ended September 30, 2013.

Interest expense increased $0.1 million to $3.6 million for the nine-month period ended September 30, 2014 from $3.5 million for the nine-month period ended September 30, 2013. The increase was primarily due to an increase in deposits year over year. Interest expense, as an annualized percentage of average total finance receivables, decreased 6 basis points to 0.81% for the nine-month period ended September 30, 2014, from 0.87% for the same period in 2013.

For the nine months ended September 30, 2014, there were no borrowings outstanding, compared to an average of $4.1 million at a weighted average interest rate of 3.20% for the same period in 2013.

Our wholly-owned subsidiary, MBB, serves as our primary funding source. MBB raises fixed-rate FDIC-insured deposits via the brokered certificates of deposit market, on a direct basis, and through the MMDA Product. At September 30, 2014, brokered certificates of deposit represented approximately 55% of total deposits, while approximately 36% of total deposits were obtained from direct channels, and 9% were in the MMDA Product. Interest expense on deposits was $3.6 million, or 0.90% as an annualized percentage of average deposits, for the nine-month period ended September 30, 2014. The average balance of deposits was $533.6 million for the nine-month period ended September 30, 2014. Interest expense on deposits was $3.1 million, or 0.94% as an annualized percentage of average deposits, for the nine-month period ended September 30, 2013. The average balance of deposits was $432.4 million for nine-month period ended September 30, 2013.

Insurance income. Insurance income increased $0.4 million to $4.0 million for the nine-month period ended September 30, 2014 from $3.6 million for the nine-month period ended September 30, 2013, primarily due to higher total finance receivables.

Other income. Other income was $1.2 million for each of the nine-month periods ended September 30, 2014 and September 30, 2013. Other income includes various administrative transaction fees and fees received from lease syndications.

Salaries and benefits expense. Salaries and benefits expense increased $0.5 million, or 2.6%, to $20.0 million for the nine months ended September 30, 2014 from $19.5 million for the same period in 2013. The increase was primarily due to annual salary adjustment. Salaries and benefits expense, as an annualized percentage of average total finance receivables, was 4.44% for the nine-month period ended September 30, 2014 compared with 4.92% for the same period in 2013.

Total personnel increased to 279 at September 30, 2014 from 276 at September 30, 2013.

General and administrative expense. General and administrative expense increased $1.1 million, or 10.1%, to $12.0 million for the nine months ended September 30, 2014 from $10.9 million for the same period in 2013. The increase was primarily due to portfolio growth and the impact of increased marketing and strategic initiatives. General and administrative expense as an annualized percentage of average total finance receivables was 2.66% for the nine-month period ended September 30, 2014, compared to 2.75% for the nine-month period ended September 30, 2013. Selected major components of general and administrative expense for the nine-month period ended September 30, 2014 included $2.1 million of premises and occupancy expense, $1.1 million of audit and tax compliance expense, $1.2 million of data processing expense and $0.8 million of marketing expense. In comparison, selected major components of general and administrative expense for the nine-month period ended September 30, 2013 included $2.0 million of premises and occupancy expense, $0.9 million of audit and tax compliance expense, $1.1 million of data processing expense and $0.7 million of marketing expense.

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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 $0.9 million for the nine months ended September 30, 2014, compared to $0.8 million for the same period in 2013.

Provision for credit losses. The provision for credit losses increased $0.2 million, or 3.1%, to $6.6 million for the nine-month period ended September 30, 2014 from $6.4 million for the same period in 2013, primarily due to growth in the portfolio and stable delinquency ratios. Additional factors that have an impact on the provision for credit losses include the ongoing seasoning of the portfolio as reflected in the mix of origination vintages and the mix of credit profiles because they impact both the charge-offs and the allowance for credit losses. 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 $6.7 million for the nine-month period ended September 30, 2014, compared to $5.8 million for the same period in 2013. The increase in net charge-offs was primarily due to portfolio growth, 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 increased to 1.48% during the nine-month period ended September 30, 2014, from 1.45% for the same period in 2013. The allowance for credit losses decreased to approximately $8.4 million at September 30, 2014, a decrease of $0.1 million from $8.5 million at December 31, 2013.

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 $8.9 million was recorded for the nine-month period ended September 30, 2014, compared to an expense of $7.7 million for the same period in 2013. The change is primarily attributable to the change in pretax income recorded for the nine-month period ended September 30, 2014. Our effective tax rate, which is a combination of federal and state income tax rates, was approximately 38.0% for the nine-month period ended September 30, 2014, compared to 37.5% for the nine-month period ended September 30, 2013. The change in effective tax rate is primarily due to an adjustment of approximately $0.1 million related to interest receivable on the 2006 through 2009 amended tax returns and changes in the mix of projected pretax book income across the jurisdictions and entities.

FINANCE RECEIVABLES AND ASSET QUALITY

Our net investment in leases and loans increased $21.6 million, or 3.6%, to $618.7 million at September 30, 2014 from $597.1 million at December 31, 2013. We continue to adjust our credit underwriting guidelines in response to current economic conditions, and we continue to develop our sales organization to increase originations. A portion of the Company s lease portfolio is generally assigned as collateral for the borrowing facility as described below in Liquidity and Capital Resources.

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The chart which follows provides our asset quality statistics for each of the three- and nine-month periods ended September 30, 2014 and September 30, 2013, and the year ended December 31, 2013:

		Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Year Ended December 31, 2013
		(Dollars in thousands)				
Allowance for credit losses, beginning of period		$ 7,725	$ 6,919	$ 8,467	$ 6,488	$ 6,488
Charge-offs		(2,707)	(2,688)	(8,446)	(7,108)	(9,499)
Recoveries		647	541	1,788	1,335	1,861
Net charge-offs		(2,060)	(2,147)	(6,658)	(5,773)	(7,638)
Provision for credit losses		2,706	2,303	6,562	6,360	9,617
Allowance for credit losses, end of period	(1)	$ 8,371	$ 7,075	$ 8,371	$ 7,075	$ 8,467
Annualized net charge-offs to average total finance receivables	(2)	1.36%	1.55%	1.48%	1.45%	1.41%
Allowance for credit losses to total finance receivables, end of period	(2)	1.36%	1.23%	1.36%	1.23%	1.42%
Average total finance receivables	(2)	$ 608,290	$ 555,422	$ 599,208	$ 529,578	$ 540,717
Total finance receivables, end of period	(2)	$ 616,916	$ 573,325	$ 616,916	$ 573,325	$ 595,253
Delinquencies greater than 60 days past due		$ 3,290	$ 2,941	$ 3,290	$ 2,941	$ 3,204
Delinquencies greater than 60 days past due	(3)	0.47%	0.45%	0.47%	0.45%	0.47%
Allowance for credit losses to delinquent accounts greater than 60 days past due	(3)	254.44%	240.56%	254.44%	240.56%	264.26%
Non-accrual leases and loans, end of period		$ 1,903	$ 1,697	$ 1,903	$ 1,697	$ 1,665
Renegotiated leases and loans, end of period		$ 1,130	$ 867	$ 1,130	$ 867	$ 815
Accruing leases and loans past due 90 days or more		$	$	$	$	$
	(4)	$ 24	$ 23	$ 137	$ 111	$ 178

Interest income included on non-accrual leases and loans						
Interest income excluded on non-accrual leases and loans	(5)	$ 28	$ 21	$ 32	$ 28	$ 20

(1) At September 30, 2014, December 31, 2013 and September 30, 2013, there was no allowance for credit losses allocated to loans.

(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.

(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 121 days. 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, 2014 were $2.1 million (1.36% of average total finance receivables on an annualized basis), compared to $2.6 million (1.71% of average total finance receivables on an annualized basis) for the three months ended June 30, 2014 and $2.1 million (1.55% of average total finance receivables on an annualized basis) for the three months ended September 30, 2013. 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, 2014 were $6.7 million (1.48% of average total finance receivables on an annualized basis), compared to $5.8 million (1.45% of average total finance receivables on an annualized basis) for the nine-month period ended September 30, 2013. Approximately 13% of the increase from the third quarter of 2013 was due to a higher charge-off rate as a percentage of average total finance receivables, and approximately 87% of the increase was related to the growth in average total finance receivables. The increase 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 0.47% at September 30, 2014 and December 31, 2013, respectively, compared to 0.45% at September 30, 2013. 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, 2014, approximately 68% of our leases were one dollar purchase option leases, 31% were fair market value leases and 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, 2014, there were $27.4 million of residual assets retained on our Consolidated Balance Sheet, of which $21.9 million, or 80.1%, were related to copiers. As of December 31, 2013, there were $28.4 million of residual assets retained on our Consolidated Balance Sheet, of which $22.7 million, or 79.8%, were related to copiers. No other group of equipment represented more than 10% of equipment residuals as of September 30, 2014 and December 31, 2013, respectively. 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 $0.9 million and $0.7 million of net residual income for the three-month periods ended September 30, 2014 and September 30, 2013, respectively. Fee income included approximately $2.2 million and $2.1 million of net residual income for the nine-month periods ended September 30, 2014 and September 30, 2013, 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. We consider renewal income a component of residual performance. Renewal income net of depreciation totaled approximately $1.1 million and $1.2 million for the three-month periods ended September 30, 2014 and September 30, 2013, respectively. Renewal income net of depreciation totaled approximately $3.4 million and $3.9 million for the nine-month periods ended September 30, 2014 and September 30, 2013, respectively. The decline in renewal income was primarily due to fewer leases reaching the end of their original contractual terms, as a result of the lower originations during the 2008 to 2011 timeframe.

For the three months ended September 30, 2014, the net loss on residual values disposed at end of term totaled $0.2 million, compared to a net loss of $0.5 million for the three months ended September 30, 2013. For the nine months ended September 30, 2014, the net loss on residual values disposed at end of term totaled $1.2 million, compared to a net loss of $1.8 million for the nine months ended September 30, 2013. The primary driver of the changes was a shift in the mix of the amounts and types 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, 2014 and September 30, 2013, 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).

Through the issuance of FDIC-insured deposits, MBB serves as the Company s primary funding source. 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.

Our strategy has generally included funding new originations, other than those funded by MBB, in the short-term with cash from operations or through borrowings under various loan facilities. Through 2010, we executed term note securitizations periodically to refinance and relieve the loan facilities. 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 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. On June 26, 2012, the facility was amended to extend the maturity date to October 9, 2014. On October 3, 2014, the facility was further amended to extend the maturity date to January 7, 2015.

On September 24, 2010, the Company s subsidiary, Marlin Leasing Receivables XIII LLC (MLR XIII), closed on a $50.0 million three-year committed loan facility with Key Equipment Finance Inc. The facility was secured by a lien on MLR XIII s assets. Advances under the facility were made pursuant to a borrowing base formula, and the proceeds were used to fund lease originations. The maturity date of the facility was September 23, 2013. On March 15, 2013, the Company elected to exercise its option to repay the remaining $1.3 million of the facility.

As previously disclosed, the Company declared a dividend of $0.125 per share on July 29, 2014. The quarterly dividend was paid on August 21, 2014 to shareholders of record on the close of business on August 11, 2014, which resulted in a dividend payment of approximately $1.6 million. It represented the Company s twelfth consecutive quarterly cash dividend.

As previously disclosed, in addition to the Company s regular quarterly dividend, the Company s Board of Directors declared a special cash dividend of $2.00 per share on September 4, 2013. The special dividend was paid on September 26, 2013 to shareholders of record on the close of business on September 16, 2013, which resulted in a dividend payment of approximately $26.0 million.

At September 30, 2014, we had approximately $98.0 million of available borrowing capacity from our borrowing facility and a federal funds line of credit with a correspondent bank in addition to available cash and cash equivalents of $104.2 million. This amount excludes additional liquidity that may be provided by the issuance of insured deposits through MBB. Our debt to equity ratio was 3.14 to 1 at September 30, 2014 and 3.09 to 1 at December 31, 2013.

Net cash used in investing activities was $30.2 million for the nine-month period ended September 30, 2014, compared to net cash used in investing activities of $80.6 million for the nine-month period ended September 30, 2013. Investing activities primarily relate to leasing activities.

Net cash provided by financing activities was $22.2 million for the nine-month period ended September 30, 2014, compared to net cash provided by financing activities of $55.3 million for the nine-month period ended September 30, 2013. 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 $26.5 million for the nine-month period ended September 30, 2014, compared to net cash provided by operating activities of $36.1 million for the nine-month period ended September 30, 2013.

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. During the third quarter of 2013, the Company received substantially all of a $15.4 million tax receivable associated with amended tax return years of 2006 thru 2009 as originally discussed in Note 13 to the Company s 10-K for December 31, 2010.

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 and, to a much lesser extent, advances under our long-term bank facility. Total cash and cash equivalents available as of September 30, 2014 totaled $104.2 million, compared to $85.7 million at December 31, 2013.

Restricted Interest-earning Deposits with Banks. As of September 30, 2014, we also had $0.9 million of cash that was classified as restricted interest-earning deposits with banks, compared to $1.3 million at December 31, 2013. Restricted interest-earning deposits with banks consist primarily of trust accounts related to our secured debt facility.

The decline in these balances in 2014 was generally due to the repayment of our borrowings.

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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, 2014 and December 31, 2013. Information pertaining to our borrowing facilities is as follows:

	For the Nine Months Ended September 30, 2014				As of September 30, 2014		
	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	$ 23,000	$	$	%	$	%	$ 23,000
Long-term loan facilities	75,000			%		%	75,000
	$ 98,000		$	%	$	%	$ 98,000

(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, 2014, MBB had $27.7 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 $23.0 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 $27.7 million in unused, secured borrowing capacity at the Federal Reserve Discount Window, based on $30.1 million of net investment in leases pledged at September 30, 2014.

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. As previously disclosed, on June 26, 2012, certain provisions of the facility were amended and its maturity date was extended from October 9, 2012 to October 9, 2014. On October 3, 2014, the facility was further amended to extend the maturity date to January 7, 2015. An event of default, such as non-payment of amounts when due under the loan agreement or a breach of covenants, may accelerate the maturity date of the facility. However, there is no amount outstanding under the facility at September 30, 2014.

On September 24, 2010, the Company s subsidiary, MLR XIII, closed on a $50.0 million three-year committed loan facility with Key Equipment Finance Inc. The facility was secured by a lien on MLR XIII s assets. Advances under the facility were made pursuant to a borrowing base formula, and the proceeds were used to fund lease originations. The maturity date of the facility was September 23, 2013. On March 15, 2013, the Company elected to exercise its option to repay the remaining $1.3 million of the facility.

Financial Covenants

Our secured borrowing arrangements contain numerous covenants, restrictions and default provisions that we must comply with in order to obtain funding through the facility and to avoid an event of default. A change in the Chief Executive Officer, Chief Operating Officer or Chief Financial Officer is an event of default under our long-term loan facility with Wells Fargo Capital Finance, unless we hire a replacement with skills and experience appropriate for performing the duties of the applicable positions within 120 days.

A merger or consolidation with another company in which the Company is not the surviving entity is also an event of default under the financing facility. The Company s long-term loan facility contains acceleration clauses allowing the creditor to accelerate the scheduled maturities of the obligation under certain conditions that may not be objectively determinable (for example, if a material adverse change occurs). An event of default under our facility could result in an acceleration of amounts outstanding under the facility, foreclosure on all or a portion of the leases financed by the facility and/or the removal of the Company as servicer of the leases financed by the facility.

Some of the critical financial and credit quality covenants under our borrowing arrangement as of September 30, 2014 include:

	Actual[1]	**Requirement**
Debt-to-equity ratio maximum	3.14 to 1	5.5 to 1
Maximum servicer senior leverage ratio	0 to 1	5.0 to 1
Maximum portfolio delinquency ratio	0.47%	3.50%
Maximum gross charge-off ratio	1.81%	7.00%

(1) Calculations are based on specific contractual definitions and subsidiaries per the debt agreement, which may differ from ratios or amounts presented elsewhere in this document.

As of September 30, 2014, the Company was in compliance with the provisions of its secured borrowing arrangement.

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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. 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). At least 4% of the total capital (6% to be well-capitalized) must be composed 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 (Tier 1 Capital). 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 Federal Reserve Board has also established minimum leverage ratio guidelines for bank holding companies. These guidelines mandate a minimum leverage ratio of Tier 1 Capital to adjusted quarterly average total assets less certain amounts (leverage amounts) equal to 3% for bank holding companies meeting certain criteria (including those having the highest regulatory rating). All other banking organizations are generally required to maintain a leverage ratio of at least 3% plus an additional cushion of at least 100 basis points and in some cases more. 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 promulgated by the Federal Reserve Board.

Bank holding companies are required to comply with the Federal Reserve Board s risk-based capital guidelines that require a minimum ratio of total capital to risk-weighted assets of 8%. At least half of the total capital is required to be Tier 1 Capital. In addition to the risk-based capital guidelines, the Federal Reserve Board has adopted a minimum leverage capital ratio under which a bank holding company must maintain a level of Tier 1 Capital to average total consolidated assets of at least 3% in the case of a bank holding company which has the highest regulatory examination rating and is not contemplating significant growth or expansion. All other bank holding companies are expected to maintain a leverage capital ratio of at least 4%.

At September 30, 2014, MBB s Tier 1 leverage ratio, Tier 1 risk-based capital ratio and total risk-based capital ratio were 16.70%, 17.97% and 19.22%, respectively, which exceeds requirements for well-capitalized status of 5%, 6% and 10%, respectively. At September 30, 2014, Marlin Business Services Corp. s Tier 1 leverage ratio, Tier 1 risk-based capital ratio and total risk-based capital ratio were 23.06%, 26.11% and 27.36%, respectively, which exceeds requirements for well-capitalized status of 5%, 6% 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, 2014 was $111.2 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 has provided MBB with additional capital to support future growth of $25 million in 2011, $10 million in 2012, and $10 million in 2013.

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, 2014

The Company declared a dividend of $0.125 per share on October 30, 2014. The quarterly dividend, which is expected to result in a dividend payment of approximately $1.6 million, is scheduled to be paid on November 20, 2014 to shareholders of record on the close of business on November 10, 2014. It represents the Company s thirteenth consecutive quarterly cash dividend. The payment of future dividends will be subject to approval by the Company s Board of Directors.

On October 3, 2014, the Company s affiliate, MRC, amended its $75.0 million borrowing facility. The amendment changed the maturity date of the facility from October 9, 2014 to January 7, 2015.

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 deposits, credit facilities, operating leases, agreements and commitments under non-cancelable contracts as of September 30, 2014 were as follows:

	Contractual Obligations as of September 30, 2014					
		Contractual Interest	Operating	Leased	Capital	
Period Ending December 31,	**Deposits**	**Payments[(1)]**	**Leases**	**Facilities**	**Leases**	**Total**
	(Dollars in thousands)					
2014	$ 53,625	$ 1,022	$ 1	$ 278	$ 25	$ 54,951
2015	201,780	3,228		1,455	102	206,565
2016	120,249	1,980		1,472	102	123,803

2017	76,533	1,044		1,479	77	79,133
2018	22,329	436		1,424		24,189
Thereafter	12,355	64		2,058		14,477
Total	$ 486,871	$ 7,774	$ 1	$ 8,166	$ 306	$ 503,118

(1) Includes interest on deposits and borrowings. Interest on the variable-rate long-term loan facility is assumed at the September 30, 2014 rate for the remaining term.

There were no off-balance sheet arrangements requiring disclosure at September 30, 2014.

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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.

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

In April 2014, the FASB issued Accounting Standards Update 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.* Under the new guidance, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations only if the disposal represents a strategic shift that has (or will have) a major effect on an entity s operations and financial results. This guidance also changes an entity s requirements when presenting, for each comparative period, the assets and liabilities of a disposal group that includes a discontinued operation. A discontinued operation may include a component of an entity, or a business or nonprofit activity. The guidance is effective interim and annual reporting periods beginning after December 15, 2014. The adoption of the new requirements is not expected to have a material impact on the consolidated earnings, financial position or cash flows of the Company.

In June 2014, the FASB issued Accounting Standards Update 2014-12, *Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period.* Under the new guidance, it is required that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. This guidance also requires that the performance target not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. The adoption of the new requirements is not expected to have a material impact on the consolidated balance sheet, statement of operations, or statement of cash flows of the Company.

In August 2014, the FASB issued Accounting Standards Update 2014-15, *Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern.* Under the new guidance, an entity s management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity s ability to continue as a going concern within one year after the date that the financial statements are issued. The guidance is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The adoption of the new requirements is not expected to have a material impact on the consolidated balance sheet, statement of operations, or statement of cash flows of the Company.

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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 2014 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, 2013.

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

On July 29, 2014, the Company s Board of Directors approved a stock repurchase plan. Under this program, 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, in block trades or otherwise. The program may be suspended or discontinued at any time. The repurchases are funded using the Company s working capital. The following table sets forth information regarding the Company s repurchases of its common stock during the three months ended September 30, 2014.

Time Period	Number of Shares Purchased[2]	Average Price Paid Per Share[1]	Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program	Maximum Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
July 1, 2014 to July 31, 2014	13,404	$ 18.69	13,404	$ 14,973,687
August 1, 2014 to August 31, 2014	84,103	$ 19.14	84,103	$ 13,363,900
September 1, 2014 to September 30, 2014	0	$ 0	0	$ 13,363,900
Total for the quarter ended September 30, 2014	97,507	$ 19.08	97,507	$ 13,363,900

(1) Average price paid per share includes commissions and is rounded to the nearest two decimal places.

(2) On November 2, 2007, the Company s Board of Directors approved a stock repurchase plan. Under this program, the Company is authorized to repurchase up to $15 million in value of its outstanding shares of common stock. On July 29, 2014, the Company s Board of Directors renewed the stock repurchase plan to repurchase up to $15 million in value of its outstanding shares of common stock.

In addition to the repurchases described above, participants in the Equity Plans may have shares withheld to cover income taxes. There were 3,933 shares repurchased to cover income tax withholding in connection with the shares granted under the Equity Plans during the three-month period ended September 30, 2014, at an average cost of $19.11 per share. At September 30, 2014, the Company had $13.4 million remaining in its stock repurchase plan authorized by the Board of Directors.

Item 3. Defaults Upon Senior Securities
None.

Item 4. Mine Safety Disclosures
None.

Item 5. Other Information
None.

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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, 2014, 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)

Management contract or compensatory plan or arrangement.

(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.

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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/ Daniel P. Dyer Daniel P. Dyer	*Chief Executive Officer* *(Chief Executive Officer)*
By: /s/ Lynne C. Wilson Lynne C. Wilson	*Chief Financial Officer & Senior Vice President* *(Principal Financial Officer)*

Date: October 31, 2014