

MARLIN BUSINESS SERVICES CORP

Form 10-Q

July 29, 2016

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**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 June 30, 2016**

*Commission file number 000-50448*

**MARLIN BUSINESS SERVICES CORP.**

(Exact name of registrant as specified in its charter)

Pennsylvania  
(State of incorporation)

38-3686388  
(I.R.S. Employer Identification Number)

300 Fellowship Road, Mount Laurel, NJ 08054

(Address of principal executive offices)

(Zip code)

(888) 479-9111

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that registrant was required to submit and post such files.)

Yes ☐ No ☐

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐  
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes ☐ No ☒

At July 26, 2016, 12,539,431 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 June 30, 2016**

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**Table of Contents****PART I. Financial Information****Item 1. Condensed Consolidated Financial Statements****MARLIN BUSINESS SERVICES CORP.****AND SUBSIDIARIES****Condensed Consolidated Balance Sheets****(Unaudited)**

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>(Dollars in thousands, except per-share data)</b>		
<b>ASSETS</b>		
Cash and due from banks	\$ 3,463	\$ 4,946
Interest-earning deposits with banks	75,304	55,183
Total cash and cash equivalents	78,767	60,129
Time deposits with banks	9,108	7,368
Restricted interest-earning deposits with banks	26	216
Securities available for sale (amortized cost of \$6.4 million and \$6.6 million at June 30, 2016 and December 31, 2015, respectively)	6,336	6,399
Net investment in leases and loans	730,750	682,432
Property and equipment, net	3,736	3,872
Property tax receivables	5,381	47
Other assets	7,687	12,521
Total assets	\$ 841,791	\$ 772,984
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits	\$ 650,429	\$ 587,940
Other liabilities:		
Sales and property taxes payable	6,948	2,686
Accounts payable and accrued expenses	13,778	15,371
Net deferred income tax liability	14,951	16,849
Total liabilities	686,106	622,846

Commitments and contingencies (Note 6)

Stockholders' equity:			
Preferred Stock, \$0.01 par value; 5,000,000 shares authorized; none issued			
Common Stock, \$0.01 par value; 75,000,000 shares authorized;			
12,539,581 and 12,410,899 shares issued and outstanding at June 30, 2016			
and December 31, 2015, respectively			
	125		124
Additional paid-in capital	82,518		81,703
Stock subscription receivable	(2)		(2)
Accumulated other comprehensive loss	(22)		(129)
Retained earnings	73,066		68,442
Total stockholders' equity	155,685		150,138
Total liabilities and stockholders' equity	\$ 841,791	\$	772,984

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

**Table of Contents****MARLIN BUSINESS SERVICES CORP.****AND SUBSIDIARIES****Condensed Consolidated Statements of Operations****(Unaudited)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>

**(Dollars in thousands, except per-share data)**

Interest income	\$	18,187	\$	16,488	\$	35,718	\$	32,975
Fee income		3,969		3,727		7,803		7,847
Interest and fee income		22,156		20,215		43,521		40,822
Interest expense		1,857		1,336		3,549		2,654
Net interest and fee income		20,299		18,879		39,972		38,168
Provision for credit losses		2,668		2,216		5,743		5,556
Net interest and fee income after provision for credit losses		17,631		16,663		34,229		32,612
Other income:								
Insurance income, net		1,570		1,358		3,192		2,824
Other income		493		399		948		764
Other income		2,063		1,757		4,140		3,588
Other expense:								
Salaries and benefits		7,812		7,265		16,012		14,232
General and administrative		4,628		4,330		9,093		8,423
Financing related costs		34		42		68		150
Other expenses		12,474		11,637		25,173		22,805
Income before income taxes		7,220		6,783		13,196		13,395
Income tax expense		2,752		2,634		5,077		5,191
Net income	\$	4,468	\$	4,149	\$	8,119	\$	8,204
Basic earnings per share	\$	0.36	\$	0.32	\$	0.65	\$	0.64

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Diluted earnings per share	\$	0.36	\$	0.32	\$	0.65	\$	0.64
Cash dividends declared per share	\$	0.14	\$	0.125	\$	0.28	\$	0.25

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

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Table of Contents**MARLIN BUSINESS SERVICES CORP.****AND SUBSIDIARIES****Condensed Consolidated Statements of Comprehensive Income****(Unaudited)**

	<b>Three Months Ended June</b>		<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>30, 2015</b>	<b>2016</b>	<b>2015</b>
	<b>(Dollars in thousands)</b>			
Net income	\$ 4,468	\$ 4,149	\$ 8,119	\$ 8,204
Other comprehensive income (loss):				
Increase (decrease) in fair value of securities available for sale	42	(64)	172	(93)
Tax effect	(15)	24	(65)	35
Total other comprehensive income (loss)	27	(40)	107	(58)
Comprehensive income	\$ 4,495	\$ 4,109	\$ 8,226	\$ 8,146

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

Table of Contents**MARLIN BUSINESS SERVICES CORP.****AND SUBSIDIARIES****Condensed Consolidated Statements of Stockholders' Equity****(Unaudited)**

	<b>Common Shares</b>	<b>Common Stock Amount</b>	<b>Additional Paid-In Capital</b>	<b>Stock Subscription Receivable</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Retained Earnings</b>	<b>Total Stockholders' Equity</b>
<b>(Dollars in thousands)</b>							
Balance, December 31, 2014	12,838,449	\$ 128	\$ 89,130	\$ (2)	\$ (17)	\$ 84,725	\$ 173,964
Issuance of common stock	14,929		234				234
Repurchase of common stock	(659,903)	(7)	(11,313)				(11,320)
Exercise of stock options	61,937	1	585				586
Excess tax benefits from stock-based payment arrangements			333				333
Stock option compensation recognized			108				108
Restricted stock grant, net of forfeitures	155,487	2	(2)				
Restricted stock compensation recognized			2,628				2,628
Net change in unrealized gain/loss on					(112)		(112)

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Table of Contents**MARLIN BUSINESS SERVICES CORP.****AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows****(Unaudited)****Six Months Ended June 30,  
2016 2015****(Dollars in thousands)**

<b>Cash flows from operating activities:</b>		
Net income	\$ 8,119	\$ 8,204
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	893	787
Stock-based compensation	1,062	1,222
Excess tax (benefits) deficit from stock-based payment arrangements	90	(317)
Provision for credit losses	5,743	5,556
Net deferred income taxes	(1,974)	(1,367)
Amortization of deferred initial direct costs and fees	4,102	3,680
Deferred initial direct costs and fees	(5,471)	(3,874)
Loss on equipment disposed	387	216
Gain on leases sold	(72)	
Leases originated for sale	(378)	
Proceeds from sale of leases	2,779	
<b>Effect of changes in other operating items:</b>		
Other assets	(738)	(5,799)
Other liabilities	2,637	1,300
Net cash provided by operating activities	17,179	9,608
<b>Cash flows from investing activities:</b>		
Net change in time deposits with banks	(1,740)	(7,368)
Purchases of equipment for direct financing lease contracts and funds used to originate loans	(229,598)	(175,013)
Principal collections on leases and loans	172,817	156,349
Security deposits collected, net of refunds	(382)	(139)
Proceeds from the sale of equipment	1,755	1,650
Acquisitions of property and equipment	(566)	(1,771)
Change in restricted interest-earning deposits with banks	190	168
Purchases of securities available for sale, net	235	(629)

Net cash (used in) investing activities	(57,289)	(26,753)
<b>Cash flows from financing activities:</b>		
Net change in deposits	62,489	4,071
Issuances of common stock	122	121
Repurchases of common stock	(317)	(4,622)
Dividends paid	(3,495)	(3,215)
Exercise of stock options	39	557
Excess tax benefits (deficit) from stock-based payment arrangements	(90)	317
Net cash provided by (used in) financing activities	58,748	(2,771)
Net (decrease) increase in total cash and cash equivalents	18,638	(19,916)
Total cash and cash equivalents, beginning of period	60,129	110,656
Total cash and cash equivalents, end of period	\$ 78,767	\$ 90,740

Supplemental disclosures of cash flow information:

Cash paid for interest on deposits and borrowings	\$ 3,249	\$ 2,401
Net cash paid for income taxes	\$ 2,632	\$ 7,483

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

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

**NOTE 2 Summary of Critical Accounting Policies**

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

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

There have been no significant changes to the Company's accounting policies as disclosed in the Company's 2015 Annual Report on Form 10-K.

***Recent Accounting Pronouncements.***

In May 2016, the FASB issued Accounting Standards Update 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. The amendments in this Update do not change the core principle of the guidance in Topic 606. Rather, the amendments in this Update affect only certain narrow aspects of Topic 606. The amendments in this Update affect the guidance in Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is effective beginning after December 15, 2017, including interim periods within that reporting period. The Company is evaluating the impact of this new requirement on the consolidated earnings, financial position and cash flows of the Company.

In June 2016, the FASB issued Accounting Standards Update 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments in this Update require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. Credit losses relating to

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available-for-sale debt securities should be recorded through an allowance for credit losses. The amendments in this Update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is evaluating the impact of this new requirement on the consolidated earnings, financial position and cash flows of the Company.

**Table of Contents****NOTE 3 Net Investment in Leases and Loans**

Net investment in leases and loans consists of the following:

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
	<b>(Dollars in thousands)</b>	
Minimum lease payments receivable	\$ 805,745	\$ 761,694
Estimated residual value of equipment	27,029	27,364
Unearned lease income, net of initial direct costs and fees deferred	(107,934)	(102,358)
Security deposits	(1,826)	(2,208)
Commercial loans, net of origination costs and fees deferred		
Funding Stream	12,623	5,115
Other <sup>(1)</sup>	4,543	1,238
Total commercial loans	17,166	6,353
Allowance for credit losses	(9,430)	(8,413)
	\$ 730,750	\$ 682,432

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

At June 30, 2016, there were no minimum lease payments receivable assigned as collateral for the borrowing facility. At June 30, 2016, there is no amount outstanding under this borrowing facility and the unused borrowing capacity is \$50.0 million. In addition, \$34.2 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 \$12.3 million and \$11.0 million as of June 30, 2016 and December 31, 2015, respectively. Initial direct costs are netted in unearned income and are amortized to income using the effective interest method. Origination costs net of fees deferred were \$0.2 million and \$0.1 million as of June 30, 2016 and December 31, 2015, respectively. Origination costs are netted in commercial loans and are amortized to income using the effective interest method. At June 30, 2016 and December 31, 2015, \$22.5 million and \$22.7 million, respectively, of the estimated residual value of equipment retained on our Condensed Consolidated Balance Sheets was related to copiers.

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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 June 30, 2016:

	<b>Minimum Lease Payments Receivable</b>	<b>Income Amortization</b>
	<b>(Dollars in thousands)</b>	
<b>Period Ending December 31,</b>		
2016	\$ 177,251	\$ 31,305
2017	281,577	41,598
2018	183,089	21,788
2019	102,659	9,688
2020	50,490	3,154
Thereafter	10,679	401
	\$ 805,745	\$ 107,934

As of June 30, 2016 and December 31, 2015, the Company maintained total finance receivables which were on a non-accrual basis of \$1.8 million and \$1.7 million, respectively. As of June 30, 2016 and December 31, 2015, there were no commercial loans on a non-accrual basis. As of June 30, 2016 and December 31, 2015, the Company had total finance receivables in which the terms of the original agreements had been renegotiated in the amount of \$0.5 million. As of June 30, 2016 and December 31, 2015, there were no commercial loans that had been renegotiated. (See Note 4 for income recognition on leases and loans and additional asset quality information.)

**Table of Contents****NOTE 4 Allowance for Credit Losses**

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

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

		<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>		<b>Year Ended December 31,</b>
		<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2015</b>
<b>(Dollars in thousands)</b>						
Allowance for credit losses, beginning of period		\$ 9,191	\$ 9,231	\$ 8,413	\$ 8,537	\$ 8,537
Charge-offs		(3,180)	(3,457)	(5,999)	(6,600)	(12,453)
Recoveries		751	577	1,273	1,074	2,334
Net charge-offs		(2,429)	(2,880)	(4,726)	(5,526)	(10,119)
Provision for credit losses		2,668	2,216	5,743	5,556	9,995
Allowance for credit losses, end of period	(1)	\$ 9,430	\$ 8,567	\$ 9,430	\$ 8,567	\$ 8,413
Annualized net charge-offs to average total finance receivables	(2)	1.38%	1.84%	1.36%	1.77%	1.59%
Allowance for credit losses to total finance receivables, end of period	(2)	1.30%	1.34%	1.30%	1.34%	1.24%
Average total finance receivables	(2)	\$ 706,039	\$ 627,079	\$ 692,645	\$ 624,600	\$ 636,790
Total finance receivables, end of period	(2)	\$ 727,707	\$ 639,333	\$ 727,707	\$ 639,333	\$ 679,738
Delinquencies greater than 60 days past due		\$ 3,548	\$ 2,899	\$ 3,548	\$ 2,899	\$ 3,163
Delinquencies greater than 60 days past due	(3)	0.43%	0.40%	0.43%	0.40%	0.41%

Allowance for credit losses to delinquent accounts greater than 60 days past due	(3)	265.78%	295.52%	265.78%	295.52%	265.98%	
Non-accrual leases and loans, end of period	\$	1,771	\$	1,433	\$	1,771	
Renegotiated leases and loans, end of period	\$	450	\$	572	\$	572	
				\$	572	\$	535

- (1) At June 30, 2016, December 31, 2015, and June 30, 2015 the allowance for credit losses allocated to loans was \$0.5 million, \$0.2 million, and less than \$0.1 million, respectively.
- (2) Total finance receivables include net investment in direct financing leases and loans. For purposes of asset quality and allowance calculations, the effects of (i) the allowance for credit losses and (ii) initial direct costs and fees deferred are excluded.
- (3) Calculated as a percent of total minimum lease payments receivable for leases and as a percent of principal outstanding for loans.

Net investments in finance receivables are generally charged-off when they are contractually past due for 120 days or more. Income recognition is discontinued on leases or loans when a default on monthly payment exists for a period of 90 days or more. Income recognition resumes when a lease or loan becomes less than 90 days delinquent. At June 30, 2016, December 31, 2015 and June 30, 2015, 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 June 30, 2016 were \$2.4 million (1.38% of average total finance receivables on an annualized basis), compared to \$2.3 million (1.35% of average total finance receivables on an annualized basis) for the three-month period ended March 31, 2016 and \$2.9 million (1.84% of average total finance receivables on an annualized basis) for the three-month period ended June 30, 2015.

**NOTE 5 Other Assets**

Other assets are comprised of the following:

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
	<b>(Dollars in thousands)</b>	
Accrued fees receivable	\$ 2,538	\$ 2,500
Prepaid expenses	1,848	2,120
Income taxes receivable		4,427
Other	3,301	3,474
	<b>\$ 7,687</b>	<b>\$ 12,521</b>

**NOTE 6 Commitments and Contingencies**

MBB is a member bank in a non-profit, multi-financial institution consortium serving as a catalyst for community development by offering flexible financing for affordable, quality housing to low- and moderate-income residents. Currently, MBB receives approximately 1.2% participation in each funded loan under the program. MBB records loans in its financial statements when they have been funded or become payable. Such loans help MBB satisfy its obligations under the Community Reinvestment Act of 1977. At June 30, 2016, MBB had an unfunded commitment of \$1.0 million for this activity. Unless renewed prior to termination, MBB's one-year commitment to the consortium will expire in September 2016.

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

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

Period Ending December 31,	Future Minimum Lease Payment Obligations		
	Capital Leases	Operating Leases	Total
(Dollars in thousands)			
2016	\$ 51	\$ 794	\$ 845
2017	77	1,531	1,608
2018		1,472	1,472
2019		1,435	1,435
2020		687	687
Total minimum lease payments	\$ 128	\$ 5,919	\$ 6,047
Less: amount representing interest	(5)		
Present value of minimum lease payments	\$ 123		

Rent expense was \$0.5 million for each of the six-month periods ended June 30, 2016 and June 30, 2015.

**NOTE 7 Deposits**

MBB serves as the Company's primary funding source. MBB issues fixed-rate FDIC-insured certificates of deposit raised nationally through various brokered deposit relationships and fixed-rate FDIC-insured deposits received from direct sources. On February 23, 2014, MBB began offering FDIC-insured money market deposit accounts (the MMDA Product) through participation in a partner bank's insured savings account product. This brokered deposit product has a variable rate, no maturity date and is offered to the clients of the partner bank and recorded as a single deposit account at MBB. As of June 30, 2016, money market deposit accounts totaled \$51.1 million.

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

Period Ending December 31,	Scheduled Maturities (Dollars in thousands)
2016	\$ 120,042
2017	222,366
2018	127,202
2019	69,926

2020	42,072
Thereafter	17,705
Total	\$ 599,313

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Certificates of deposits issued by MBB are time deposits and are generally issued in denominations of \$250,000 or less. The MMDA Product is also issued to customers in amounts less than \$250,000. The FDIC insures deposits up to \$250,000 per depositor. The weighted average all-in interest rate of deposits at June 30, 2016 was 1.21%.

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

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

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

The three levels are defined as follows:

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

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

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

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

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

June 30, 2016		December 31, 2015	
Fair Value Measurements Using		Fair Value Measurements Using	
Level 1	Level 2	Level 1	Level 2

(Dollars in thousands)

## Assets

Securities available for sale	\$ 3,436	\$ 2,900	\$ 3,332	\$ 3,067
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At this time, the Company has not elected to report any assets or liabilities using the fair value option available under the Financial Instruments Topic of the FASB ASC. There have been no transfers between Level 1 and Level 2 of the fair value hierarchy.

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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:

	<b>June 30, 2016</b>		<b>December 31, 2015</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
<b>(Dollars in thousands)</b>				
<b>Financial Assets</b>				
Cash and cash equivalents	\$ 78,767	\$ 78,767	\$ 60,129	\$ 60,129
Time deposits with banks	9,108	9,125	7,368	7,356
Restricted interest-earning deposits with banks	26	26	216	216
Loans, net of allowance	16,663	16,778	6,179	6,152
<b>Financial Liabilities</b>				
Deposits	\$ 650,429	\$ 652,105	\$ 587,940	\$ 586,898

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

***Cash and Cash Equivalents***

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

***Time Deposits with Banks***

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

***Restricted Interest-Earning Deposits with Banks***

The Company 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 June 30, 2016 and December 31, 2015. This fair value measurement is classified as Level 1.

***Securities Available for Sale***

Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon various sources of market pricing. Securities are classified within the fair value hierarchy after giving consideration to the activity level in the market for the security type and the observability of the inputs used to determine the fair value. When available, the Company uses quoted prices in active markets and classifies such instruments within Level 1 of the fair value hierarchy. Level 1 securities include mutual funds. When instruments are traded in secondary markets and quoted market prices do not exist for such securities, the Company relies on prices obtained from third-party pricing vendors and classifies these instruments within Level 2 of the fair value hierarchy. The third-party vendors use

a variety of methods when pricing securities that incorporate relevant market data to arrive at an estimate of what a buyer in the marketplace would pay for a security under current market conditions. Level 2 securities include municipal bonds.

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***Loans***

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

***Deposits***

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

**Table of Contents****NOTE 9 Earnings Per Share**

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

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

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

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>(Dollars in thousands, except per-share data)</b>				
<b>Basic EPS</b>				
Net income	\$ 4,468	\$ 4,149	\$ 8,119	\$ 8,204
Less: net income allocated to participating securities	(129)	(118)	(231)	(241)
Net income allocated to common stock	\$ 4,339	\$ 4,031	\$ 7,888	\$ 7,963
Weighted average common shares outstanding	12,506,900	12,817,004	12,489,741	12,837,037
Less: Unvested restricted stock awards considered participating securities	(370,240)	(366,721)	(360,944)	(368,377)
Adjusted weighted average common shares used in computing basic EPS	12,136,660	12,450,283	12,128,797	12,468,660
<b>Basic EPS</b>	\$ 0.36	\$ 0.32	\$ 0.65	\$ 0.64
<b>Diluted EPS</b>				
Net income allocated to common stock	\$ 4,339	\$ 4,031	\$ 7,888	\$ 7,963
Adjusted weighted average common shares used in computing basic EPS	12,136,660	12,450,283	12,128,797	12,468,660

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Add: Effect of dilutive stock options	6,521	14,355	6,237	25,215
Adjusted weighted average common shares used in computing diluted EPS	12,143,181	12,464,638	12,135,034	12,493,875
<b>Diluted EPS</b>	\$ 0.36	\$ 0.32	\$ 0.65	\$ 0.64

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For the three-month periods ended June 30, 2016 and June 30, 2015, options to purchase 2,224 and 14,609 shares of common stock, respectively, were considered antidilutive and therefore were not considered in the computation of potential common shares for purposes of diluted EPS.

For the six-month periods ended June 30, 2016 and June 30, 2015, options to purchase 2,279 and 15,151 shares of common stock, respectively, were considered antidilutive and therefore were not considered in the computation of potential common shares for purposes of diluted EPS.

## **NOTE 10 Stockholders Equity**

### ***Stockholders Equity***

On July 29, 2014, the Company's Board of Directors approved a new stock repurchase plan to replace the 2007 Repurchase Plan (the "2014 Repurchase Plan"). Under the 2014 Repurchase Plan, the Company is authorized to repurchase up to \$15 million in value of its outstanding shares of common stock. This authority may be exercised from time to time and in such amounts as market conditions warrant. Any shares purchased under this plan are returned to the status of authorized but unissued shares of common stock. The repurchases may be made on the open market, 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 six month periods ended June 30, 2016, the Company did not repurchase any of its common stock under the 2014 Repurchase Plan in the open market. During the three- and six-month periods ended June 30, 2015, the Company purchased 98,394 shares and 210,523 shares of its common stock under the 2014 Repurchase Plan at an average cost of \$18.96 and \$18.69, respectively. At June 30, 2016, the Company had \$3.2 million remaining in the 2014 Repurchase Plan.

In addition to the repurchases described above, participants in the Company's 2014 Equity Compensation Plan (approved by the Company's shareholders on June 3, 2014) (the "2014 Plan") may have shares withheld to cover income taxes. There were 490 and 21,938 shares repurchased to cover income tax withholding in connection with shares granted under the 2014 Plan during each of the three- and six-month periods ended June 30, 2016, at average per-share costs of \$14.89 and \$14.45, respectively. There were 4,541 and 37,727 shares repurchased to cover income tax withholding in connection with shares granted under the 2014 Plan during the three- and six-month periods ended June 30, 2015, at average per-share costs of \$17.87 and \$18.22, respectively.

### ***Regulatory Capital Requirements***

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

The Company and MBB are subject to capital adequacy regulations issued jointly by the federal bank regulatory agencies. These risk-based capital and leverage guidelines make regulatory capital requirements more sensitive to differences in risk profiles among banking organizations and consider off-balance sheet exposures in determining capital adequacy. The federal bank regulatory agencies and/or the U.S. Congress may determine to increase capital requirements in the future due to the current economic environment. Under the capital adequacy regulation, at least half of a banking organization's total capital is required to be Tier 1 Capital as defined in the regulations, comprised of

common equity, retained earnings and a limited amount of non-cumulative perpetual preferred stock. The remaining capital, Tier 2 Capital, as defined in the regulations, may consist of other preferred stock, a limited amount of term subordinated debt or a limited amount of the reserve for possible credit losses. The regulations establish minimum leverage ratios for banking organizations, which are calculated by dividing Tier 1 Capital by total quarterly average assets. Recognizing that the risk-based capital standards principally address credit risk rather than interest rate, liquidity, operational or other risks, many banking organizations are expected to maintain capital in excess of the minimum standards.

On January 1, 2015, the Company and MBB became subject to new capital adequacy standards under the Basel III rules. The new standards require a minimum for Tier 1 leverage ratio of 4%. The new standards raised the required minimum Tier 1 risk-based ratio from 4% to 6%. The total risk-based capital ratio of 8% did not change. The new capital adequacy standards establish a new common equity Tier 1 risk-based capital ratio with a required 4.5% minimum (6.5% to be considered well-capitalized). The Company is required to have a level of regulatory capital in excess of the regulatory minimum and to have a capital buffer above 0.625% for 2016. If a banking organization does not maintain capital above the minimum plus the capital conservation buffer it may be subject to restrictions on dividends, share buybacks, and certain discretionary payments such as bonus payments.

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The Company plans to provide the necessary capital to maintain MBB at well-capitalized status as defined by banking regulations and as required by an agreement entered into by and among MBB, MLC, Marlin Business Services Corp. and the FDIC in conjunction with the opening of MBB (the FDIC Agreement ). MBB's Tier 1 Capital balance at June 30, 2016 was \$127.5 million, which met all capital requirements to which MBB is subject and qualified MBB for well-capitalized status. At June 30, 2016, the Company also exceeded its regulatory capital requirements and was considered well-capitalized as defined by federal banking regulations and as required by the FDIC Agreement.

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

	Actual Ratio	Actual Amount	Minimum Capital Requirement Ratio <sup>(1)</sup>	Minimum Capital Requirement Amount	Well-Capitalized Capital Requirement Ratio	Well-Capitalized Capital Requirement Amount
(Dollars in thousands)						
<b>Tier 1 Leverage Capital</b>						
Marlin Business Services Corp.	18.90%	\$ 155,706	4%	\$ 32,954	5%	\$ 41,192
Marlin Business Bank	15.92%	\$ 127,514	5%	\$ 40,049	5%	\$ 40,049
<b>Common Equity Tier 1 Risk-Based Capital</b>						
Marlin Business Services Corp.	20.14%	\$ 155,706	4.5%	\$ 34,789	6.5%	\$ 50,251
Marlin Business Bank	16.89%	\$ 127,514	6.5%	\$ 49,085	6.5%	\$ 49,085
<b>Tier 1 Risk-based Capital</b>						
Marlin Business Services Corp.	20.14%	\$ 155,706	6%	\$ 46,385	8%	\$ 61,847
Marlin Business Bank	16.89%	\$ 127,514	8%	\$ 60,412	8%	\$ 60,412
<b>Total Risk-based Capital</b>						
Marlin Business Services Corp.	21.36%	\$ 165,136	8%	\$ 61,847	10%	\$ 77,309
Marlin Business Bank	18.12%	\$ 136,843	15%	\$ 113,273	10% <sup>(1)</sup>	\$ 75,516

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

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

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

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

prohibiting the payment of principal and interest on subordinated debt;

prohibiting the holding company from making distributions without prior regulatory approval;

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placing limits on asset growth and restrictions on activities;

placing additional restrictions on transactions with affiliates;

restricting the interest rate the institution may pay on deposits;

prohibiting the institution from accepting deposits from correspondent banks; and

in the most severe cases, appointing a conservator or receiver for the institution.

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

Pursuant to the FDIC Agreement entered into in conjunction with the opening of MBB, MBB must keep its total risk-based capital ratio above 15%. MBB's total risk-based capital ratio of 18.12% at June 30, 2016 exceeded the threshold for well capitalized status under the applicable laws and regulations, and also exceeded the 15% minimum total risk-based capital ratio required in the FDIC Agreement.

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

## **NOTE 11 Stock-Based Compensation**

Under the terms of the 2014 Plan, employees, certain consultants and advisors and non-employee members of the Company's Board of Directors have the opportunity to receive incentive and nonqualified grants of stock options, stock appreciation rights, restricted stock and other equity-based awards as approved by the Company's Board of Directors. These award programs are used to attract, retain and motivate employees and to encourage individuals in key management roles to retain stock. The Company has a policy of issuing new shares to satisfy awards under the 2014 Plan. The aggregate number of shares under the 2014 Plan that may be issued pursuant to stock options 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 778,934 shares available for future grants under the 2014 Plan as of June 30, 2016, of which 578,934 shares were available to be issued as restricted stock grants.

Total stock-based compensation expense was \$0.3 million for each of the three-month periods ended June 30, 2016 and June 30, 2015. Total stock-based compensation expense was \$1.1 million and \$1.2 million for the six-month periods ended June 30, 2016 and June 30, 2015, respectively. An excess tax deficit from stock-based payment arrangements increased cash provided by operating activities and decreased cash provided by financing activities by \$0.1 million for the six-month period ended June 30, 2016. Excess tax benefits from stock-based payment arrangements increased cash provided by financing activities and decreased cash provided by operating activities by

\$0.3 million for the six-month periods ended June 30, 2015.

### **Stock Options**

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

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

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

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

<b>Options</b>	<b>Number of Shares</b>	<b>Weighted Average Exercise Price Per Share</b>
Outstanding, December 31, 2015	50,686	\$ 12.09
Granted		
Exercised	(3,455)	11.29
Forfeited	(1,666)	12.41
Expired		
Outstanding, June 30, 2016	45,565	12.14

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

There were 3,455 and 23,691 stock options exercised during the three-month periods ended June 30, 2016 and June 30, 2015, respectively. The total pretax intrinsic values of stock options exercised were less than \$0.1 million and \$0.2 million for the three-month periods ended June 30, 2016 and June 30, 2015, respectively.

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

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

<b>Options Outstanding</b>					<b>Options Exercisable</b>			
<b>Range of</b>	<b>Number</b>	<b>Weighted Average Remaining Life (Years)</b>	<b>Weighted Average Exercise Price (In thousands)</b>	<b>Aggregate Intrinsic Value</b>	<b>Number</b>	<b>Weighted Average Remaining Life (Years)</b>	<b>Weighted Average Exercise Price (In thousands)</b>	<b>Aggregate Intrinsic Value</b>
<b>Exercise Prices Outstanding</b>					<b>Exercisable</b>			
\$7.17	2,041	0.3	\$ 7.17	\$ 19	2,041	0.3	\$ 7.17	\$ 19
\$12.08 - 12.41	43,524	0.9	12.37	171	41,300	0.9	12.37	162
	45,565	0.9	12.14	\$ 190	43,341	0.9	12.13	\$ 181

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the Company's closing stock price of \$16.30 as of June 30, 2016, which would have been received by the option holders had all option holders exercised their options as of that date.

As of June 30, 2016, there was no future compensation cost related to non-vested stock options not yet recognized in the Consolidated Statements of Operations based on the most probable performance assumptions. As of June 30, 2016, \$0.1 million of additional potential compensation cost related to non-vested stock options has not been recognized due to performance targets not being achieved. However, in certain circumstances, these options may be subject to vesting prior to their expiration dates. The weighted average remaining term of these options is approximately 0.9 years.

**Table of Contents****Restricted Stock Awards**

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

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

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

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

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

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

		<b>Weighted Average Grant-Date Fair Value</b>
<b>Non-vested restricted stock</b>	<b>Shares</b>	
Outstanding at December 31, 2015	313,236	\$ 16.65
Granted	157,516	14.80
Vested	(58,184)	18.22
Forfeited	(18,332)	18.01
Outstanding at June 30, 2016	394,236	15.62

During the three-month periods ended June 30, 2016 and June 30, 2015, the Company granted restricted stock awards with grant date fair values totaling \$0.6 million and \$0.5 million, respectively. During the six-month periods ended June 30, 2016 and June 30, 2015, the Company granted restricted stock awards with grant date fair values totaling \$2.3 million and \$2.5 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 of compensation expense related to restricted stock for each of the three-month periods ended June 30, 2016 and June 30, 2015, respectively. The Company recognized \$1.1 million and \$1.2 million of compensation expense related to restricted stock for the six-month periods ended June 30, 2016 and June 30, 2015, respectively.

Of the \$1.1 million total compensation expense related to restricted stock for the six-month period ended June 30, 2016, approximately \$0.5 million related to accelerated vesting during the first quarter of 2016, based on achievement of certain performance criteria determined annually. Of the \$1.2 million total compensation expense related to restricted stock for the six-month period ended June 30, 2015, approximately \$0.5 million related to accelerated vesting during the first quarter of 2015, which was also based on the achievement of certain performance criteria determined annually.

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As of June 30, 2016, there was \$4.5 million of unrecognized compensation cost related to non-vested restricted stock compensation scheduled to be recognized over a weighted average period of 4.3 years. In the event individual performance targets are achieved, \$1.6 million of the unrecognized compensation cost would accelerate to be recognized over a weighted average period of 1.5 years. In addition, certain of the awards granted may result in the issuance of 57,998 additional shares of stock if achievement of certain targets is greater than 100%. The expense related to the additional shares awarded will be dependent on the Company's stock price when the achievement level is determined.

The fair value of shares that vested during the three-month periods ended June 30, 2016 and June 30, 2015 was \$0.1 million and \$0.5 million, respectively. The fair value of shares that vested during the six-month periods ended June 30, 2016 and June 30, 2015 was \$0.8 million and \$2.2 million, respectively.

## **NOTE 12 Subsequent Events**

The Company declared a dividend of \$0.14 per share on July 28, 2016. The quarterly dividend, which is expected to result in a dividend payment of approximately \$1.8 million, is scheduled to be paid on August 18, 2016 to shareholders of record on the close of business on August 8, 2016. It represents the Company's twentieth consecutive quarterly cash dividend. The payment of future dividends will be subject to approval by the Company's Board of Directors.

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

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

## **FORWARD-LOOKING STATEMENTS**

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

- i availability, terms and deployment of funding and capital;
- i changes in our industry, interest rates, the regulatory environment or the general economy resulting in changes to our business strategy;

- ; the degree and nature of our competition;
- ; availability and retention of qualified personnel;
- ; general volatility of the capital markets; and
- ; the factors set forth in the section captioned Risk Factors in Item 1 of our Form 10-K for the year ended December 31, 2015 filed with the SEC.

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.

**Table of Contents****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 June 30, 2016, our lease portfolio consisted of 85,062 accounts with an average original term of 48 months and average original transaction size of approximately \$15,000.

During the first quarter of 2015, the Company launched Funding Stream, a new, flexible loan program of MBB. Funding Stream is tailored to the small business market to provide customers a convenient, hassle free alternative to traditional lenders and access to capital to help grow their businesses. As of June 30, 2016, the Company had approximately \$12.6 million, not including the allowance for credit losses allocated to loans of \$0.5 million, of small business loans on the balance sheet. Generally, these loans range from \$5,000 to \$100,000, have flexible 6 to 24 month terms, and have automated daily or weekly payback. Small business owners can apply online, in ten minutes or less, on [www.Fundingstream.com](http://www.Fundingstream.com). Approved borrowers can receive funds in as little as two days.

At June 30, 2016, we had \$841.8 million in total assets. Our assets are substantially comprised of our net investment in leases and loans which totaled \$730.8 million at June 30, 2016.

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

	<b>As of or For the Six Months Ended June 30, 2016</b>	<b>As of or For the Year Ended December 31,</b>				
		<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Number of sales account executives	139	136	115	124	114	93
Number of originating sources <sup>(1)</sup>	1,107	1,093	1,117	1,173	1,117	827

<sup>(1)</sup> Monthly average of origination sources generating lease volume

Our revenue consists of interest and fees from our leases and loans and, to a lesser extent, income from our property insurance program and other fee income. Our expenses consist of interest expense and other expenses, which include salaries and benefits and other general and administrative expenses. As a credit lender, our earnings are also impacted by credit losses. For the quarter ended June 30, 2016, our annualized net credit losses were 1.38% 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 69% of our lease portfolio at June 30, 2016 amortizes over the lease term to a \$1 residual value. For the remainder of the portfolio, we must estimate end of term residual values for the leased assets. Failure to correctly estimate residual values could result in losses being realized on the disposition of the equipment at the end of the lease term.

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We fund our business primarily through the issuance of fixed and variable-rate FDIC-insured deposits and money market demand accounts raised nationally by MBB. The Company also maintains a variable-rate long-term loan facility. As of June 30, 2016 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 June 30, 2016, total MBB deposits were \$650.4 million, compared to \$587.9 million at December 31, 2015. We had no outstanding secured borrowings as of both June 30, 2016 and December 31, 2015.

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

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

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

## **Critical Accounting Policies**

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

## **RESULTS OF OPERATIONS**

### **Comparison of the Three-Month Periods Ended June 30, 2016 and June 30, 2015**

**Net income.** Net income of \$4.5 million was reported for the three-month period ended June 30, 2016, resulting in diluted EPS of \$0.36, compared to net income of \$4.1 million and diluted EPS of \$0.32 for the three-month period ended June 30, 2015.

Return on average assets was 2.19% for the three-month period ended June 30, 2016, compared to a return of 2.18% for the three-month period ended June 30, 2015. Return on average equity was 11.66% for the three-month period ended June 30, 2016, compared to a return of 9.47% for the three-month period ended June 30, 2015.

Overall, our average net investment in total finance receivables for the three-month period ended June 30, 2016 increased 12.6% to \$706.0 million, compared to \$627.1 million for the three-month period ended June 30, 2015. This change was primarily due to origination volume continuing to exceed lease repayments. The end-of-period net investment in total finance receivables at June 30, 2016 was \$730.8 million, an increase of \$48.4 million, or 7.1%, from \$682.4 million at December 31, 2015.

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During the three months ended June 30, 2016, we generated 6,681 new leases with equipment cost of \$113.6 million, compared to 6,366 new leases with equipment cost of \$92.7 million generated for the three months ended June 30, 2015. Sales staffing levels increased from 127 sales account executives at June 30, 2015 to 139 sales account executives at June 30, 2016. Approval rates decreased 6% to 58% for the quarter ended June 30, 2016, compared to 64% for the quarter ended June 30, 2015.

For the three-month period ended June 30, 2016 compared to the three-month period ended June 30, 2015, net interest and fee income increased \$1.4 million, or 7.4%, primarily due to a \$1.7 million increase in interest income, partially offset by a \$0.6 million increase in interest expense. The provision for credit losses increased \$0.5 million, or 22.7%, to \$2.7 million for the three-month period ended June 30, 2016 from \$2.2 million for the same period in 2015, primarily due to growth in the portfolio.

***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 June 30, 2016 and June 30, 2015.

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Three Months Ended June 30,							
2016				2015			
(Dollars in thousands)							
	Average Balance <sup>(1)</sup>	Interest	Average Yields/ Rates <sup>(2)</sup>	Average Balance <sup>(1)</sup>	Interest	Average Yields/ Rates <sup>(2)</sup>	
<b>Interest-earning assets:</b>							
Interest-earning deposits with banks	\$ 72,664	\$ 42	0.23%	\$ 98,306	\$ 34	0.14%	
Time Deposits	8,843	28	1.26	5,512	14	1.04	
Restricted interest-earning deposits with banks	58	-	0.08	1,182		0.01	
Securities available for sale	6,273	35	2.23	5,556	30	2.15	
Net investment in leases <sup>(3)</sup>	692,426	17,103	9.88	625,347	16,348	10.46	
Loans receivable <sup>(3)</sup>	13,613	979	28.76	1,732	62	14.31	
<b>Total interest-earning assets</b>	<b>793,877</b>	<b>18,187</b>	<b>9.16</b>	<b>737,635</b>	<b>16,488</b>	<b>8.94</b>	
<b>Non-interest-earning assets:</b>							
Cash and due from banks	1,671			1,495			
Property and equipment, net	3,770			3,774			
Property tax receivables	5,803			6,346			
Other assets <sup>(4)</sup>	11,940			11,680			
<b>Total non-interest-earning assets</b>	<b>23,184</b>			<b>23,295</b>			
<b>Total assets</b>	<b>\$ 817,061</b>			<b>\$ 760,930</b>			
<b>Interest-bearing liabilities:</b>							
Certificate of Deposits <sup>(5)</sup>	\$ 581,582	\$ 1,787	1.23%	508,234	\$ 1,304	1.03%	
Money Market Deposits <sup>(5)</sup>	51,789	70	0.54	45,920	32	0.28	
<b>Total interest-bearing liabilities</b>	<b>633,371</b>	<b>1,857</b>	<b>1.17</b>	<b>554,154</b>	<b>1,336</b>	<b>0.97</b>	
<b>Non-interest-bearing liabilities:</b>							
Sales and property taxes payable	7,606			6,784			
Accounts payable and accrued expenses	5,555			7,049			
Net deferred income tax liability	17,222			17,737			
<b>Total non-interest-bearing liabilities</b>	<b>30,383</b>			<b>31,570</b>			

<b>Total liabilities</b>	663,754	585,724
<b>Stockholders' equity</b>	153,307	175,206
<b>Total liabilities and stockholders' equity</b>	<b>\$ 817,061</b>	<b>\$ 760,930</b>
<b>Net interest income</b>	<b>\$ 16,330</b>	<b>\$ 15,152</b>
<b>Interest rate spread<sup>(6)</sup></b>	<b>7.99%</b>	<b>7.97%</b>
<b>Net interest margin<sup>(7)</sup></b>	<b>8.23%</b>	<b>8.22%</b>
<b>Ratio of average interest-earning assets to average interest-bearing liabilities</b>	<b>125.34%</b>	<b>133.11%</b>

(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 June 30, 2016 Compared To  
Three Months Ended June 30, 2015  
Increase (Decrease) Due To:**

**Volume<sup>(1)</sup>                      Rate<sup>(1)</sup>                      Total**

**(Dollars in thousands)**

**Interest income:**

Interest-earning deposits with banks	\$ (10)	\$ 18	\$ 8
Time Deposits	10	4	14
Securities available for sale	4	1	5
Net investment in leases	1,689	(934)	755
Loans receivable	799	118	917
<b>Total interest income</b>	<b>1,281</b>	<b>418</b>	<b>1,699</b>

**Interest expense:**

Certificate of Deposits	204	279	483
Money Market Deposits	5	33	38
<b>Total interest expense</b>	<b>207</b>	<b>314</b>	<b>521</b>

<b>Net interest income</b>	<b>1,157</b>	<b>21</b>	<b>1,178</b>
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- <sup>(1)</sup> 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 June 30, 2016 and June 30, 2015.

	<b>Three Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
	<b>(Dollars in thousands)</b>	
Interest income	\$ 18,187	\$ 16,488
Fee income	3,969	3,727
Interest and fee income	22,156	20,215
Interest expense	1,857	1,336
Net interest and fee income	\$ 20,299	\$ 18,879
Average total finance receivables <sup>(1)</sup>	\$ 706,039	\$ 627,079
<b>Annualized percent of average total finance receivables:</b>		
Interest income	10.30 %	10.52 %
Fee income	2.25	2.38
Interest and fee income	12.55	12.90
Interest expense	1.05	0.85
Net interest and fee margin	11.50 %	12.05 %

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

Net interest and fee income increased \$1.4 million, or 7.4%, to \$20.3 million for the three months ended June 30, 2016 from \$18.9 million for the three months ended June 30, 2015. The annualized net interest and fee margin decreased 55 basis points to 11.50% in the three-month period ended June 30, 2016 from 12.05% for the same period in 2015.

Interest income, net of amortized initial direct costs and fees, was \$18.2 million and \$16.5 million for the three-month periods ended June 30, 2016 and June 30, 2015, respectively. Average total finance receivables increased \$78.9 million, or 12.6%, to \$706.0 million at June 30, 2016 from \$627.1 million at June 30, 2015. The increase in average total finance receivables was primarily due to origination volume continuing to exceed lease repayments. The average yield on the portfolio decreased, due to lower yields on the new leases compared to the yields on the leases repaying.

The weighted average implicit interest rate on new finance receivables originated was 11.80% and 11.16% for the three-month periods ended June 30, 2016, and June 30, 2015, respectively.

Fee income was \$4.0 million and \$3.7 million for the three-month periods ended June 30, 2016 and June 30, 2015, respectively. Fee income included approximately \$1.1 million and \$1.0 million of net residual income for the three-month periods ended June 30, 2016 and June 30, 2015, respectively.

Fee income also included approximately \$2.3 million and \$2.2 million in late fee income for the three-month periods ended June 30, 2016 and June 30, 2015, respectively.

Fee income, as an annualized percentage of average total finance receivables, decreased 13 basis points to 2.25% for the three-month period ended June 30, 2016 from 2.38% for the same period in 2015. Late fees remained the largest component of fee income at 1.29% as an annualized percentage of average total finance receivables for the three-month period ended June 30, 2016, compared to 1.39% for the three-month period ended June 30, 2015. As an annualized percentage of average total finance receivables, net residual income was 0.64% for the three-month period ended June 30, 2016, compared to 0.61% for the three-month period ended June 30, 2015.

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Interest expense increased \$0.6 million to \$1.9 million, or 1.17% as an annualized percentage of average deposits for, the three-month period ended June 30, 2016, from \$1.3 million, or 0.97% as an annualized percentage of average deposits, for the three-month period ended June 30, 2015. The increase was primarily due to an increase in rate paid on interest bearing liabilities and to a lesser degree, the increase in the average balances of interest bearing liabilities. Interest expense, as an annualized percentage of average total finance receivables, increased 20 basis points to 1.05% for the three-month period ended June 30, 2016, from 0.85% for the same period in 2015. The average balance of deposits was \$633.4 million and \$554.2 million for the three-month periods ended June 30, 2016 and June 30, 2015, respectively.

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

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

**Insurance income.** Insurance income increased \$0.2 million to \$1.6 million for the three-month period ended June 30, 2016 from \$1.4 million for the three-month period ended June 30, 2015, primarily due to an increase in the number of contracts enrolled in the insurance program as well as higher average ticket size.

**Other income.** Other income was \$0.5 million and \$0.4 million for the three-month periods ended June 30, 2016 and June 30, 2015, respectively. Other income primarily includes various administrative transaction fees and fees received from referral of leases to third parties and gain on sale of leases, recognized as earned.

**Salaries and benefits expense.** Salaries and benefits expense increased \$0.5 million, or 6.8%, to \$7.8 million for the three-month period ended June 30, 2016 from \$7.3 million for the same period in 2015. The increase was primarily due to an increase in total personnel. Salaries and benefits expense, as an annualized percentage of average total finance receivables, was 4.43% for the three-month period ended June 30, 2016 compared with 4.63% for the same period in 2015. Total personnel increased to 315 at June 30, 2016 from 302 at June 30, 2015.

**General and administrative expense.** General and administrative expense increased \$0.3 million, or 7.0%, to \$4.6 million for the three months ended June 30, 2016 from \$4.3 million for the same period in 2015. General and administrative expense as an annualized percentage of average total finance receivables was 2.62% for the three-month period ended June 30, 2016, compared to 2.76% for the three-month period ended June 30, 2015. Selected major components of general and administrative expense for the three-month period ended June 30, 2016 included \$0.8 million of premises and occupancy expense, \$0.3 million of audit and tax compliance expense, \$0.6 million of data processing expense, and \$0.5 million of marketing expense. In comparison, selected major components of general and administrative expense for the three-month period ended June 30, 2015 included \$0.9 million of premises and occupancy expense, \$0.4 million of audit and tax compliance expense, \$0.5 million of data processing expense, and \$0.3 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 less than \$0.1 million for each of the three month periods ended June 30, 2016 and June 30, 2015.

**Provision for credit losses.** The provision for credit losses increased \$0.5 million, or 22.7%, to \$2.7 million for the three months ended June 30, 2016 from \$2.2 million for the same period in 2015, primarily due to growth in the

portfolio. Lease portfolio losses tend to follow patterns based on the mix of origination vintages comprising the portfolio. The anticipated credit losses from the inception of a particular lease origination vintage to charge-off generally follow a pattern of lower losses for the first few months, followed by increased losses in subsequent months, then lower losses during the later periods of the lease term. Therefore, the seasoning, or mix of origination vintages, of the portfolio affects the timing and amount of anticipated probable and estimable credit losses.

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Net charge-offs were \$2.4 million for the three-month periods ended June 30, 2016, compared to \$2.9 million for the same period in 2015. Net charge-offs as an annualized percentage of average total finance receivables decreased to 1.38% during the three-month period ended June 30, 2016, from 1.84% for the same period in 2015. The allowance for credit losses increased to approximately \$9.4 million at June 30, 2016, an increase of \$1.0 million from \$8.4 million at December 31, 2015.

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

***Provision for income taxes.*** Income tax expense of \$2.8 million and \$2.6 million was recorded for the three-month periods ended June 30, 2016 and June 30, 2015, respectively. Our effective tax rate, which is a combination of federal and state income tax rates, was approximately 38.1% and 38.8% for the three-month periods ended June 30, 2016 and June 30, 2015, respectively.

**Comparison of the Six-Month Periods Ended June 30, 2016 and June 30, 2015**

***Net income.*** Net income of \$8.1 million was reported for the six-month period ended June 30, 2016, resulting in diluted EPS of \$0.65, compared to net income of \$8.2 million and diluted EPS of \$0.64 for the six-month period ended June 30, 2015.

Return on average assets was 2.04% for the six-month period ended June 30, 2016, compared to a return of 2.17% for the six-month period ended June 30, 2015. Return on average equity was 10.70% for the six-month period ended June 30, 2016, compared to a return of 9.40% for the six-month period ended June 30, 2015.

Overall, our average net investment in total finance receivables for the six-month period ended June 30, 2016 increased 10.9% to \$692.6 million, compared to \$624.6 million for the six-month period ended June 30, 2015. This change was primarily due to origination volume continuing to exceed lease repayments. The end-of-period net investment in total finance receivables at June 30, 2016 was \$730.8 million, an increase of \$48.4 million, or 7.1%, from \$682.4 million at December 31, 2015.

During the six months ended June 30, 2016, we generated 12,997 new leases with equipment cost of \$215.7 million, compared to 12,057 new leases with equipment cost of \$174.1 million generated for the six months ended June 30, 2015. Sales staffing levels increased from 127 sales account executives at June 30, 2015 to 139 sales account executives at June 30, 2016. Approval rates declined 3% to 60% for the six-month period ended June 30, 2016, compared to 63% for the six-month period ended June 30, 2015.

For the six-month period ended June 30, 2016 compared to the six-month period ended June 30, 2015, net interest and fee income increased \$1.8 million, or 4.7%, primarily due to a \$2.7 million increase in interest income, partially offset by a \$0.8 million increase in interest expense. The provision for credit losses increased \$0.1 million, or 1.8%, to \$5.7 million for the six-month period ended June 30, 2016 from \$5.6 million for the same period in 2015, primarily due to growth in the portfolio.

***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 six-month periods ended June 30, 2016 and June 30, 2015.



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Six Months Ended June 30,							
2016				2015			
(Dollars in thousands)							
	Average Balance <sup>(1)</sup>	Interest	Average Yields/ Rates <sup>(2)</sup>	Average Balance <sup>(1)</sup>	Interest	Average Yields/ Rates <sup>(2)</sup>	
<b>Interest-earning assets:</b>							
Interest-earning deposits with banks	\$ 67,419	\$ 88	0.26%	\$ 101,574	\$ 67	0.13%	
Time Deposits	8,439	51	1.20	3,160	17	1.05	
Restricted interest-earning deposits with banks	114		0.08	926		0.01	
Securities available for sale	6,288	70	2.24	5,605	59	2.12	
Net investment in leases <sup>(3)</sup>	681,421	33,889	9.95	623,142	32,753	10.51	
Loans receivable <sup>(3)</sup>	11,224	1,620	28.86	1,457	79	10.84	
<b>Total interest-earning assets</b>	<b>774,905</b>	<b>35,718</b>	<b>9.22</b>	<b>735,864</b>	<b>32,975</b>	<b>8.96</b>	
<b>Non-interest-earning assets:</b>							
Cash and due from banks	2,941			1,792			
Property and equipment, net	3,806			3,429			
Property tax receivables	2,888			3,384			
Other assets <sup>(4)</sup>	11,852			10,928			
<b>Total non-interest-earning assets</b>	<b>21,487</b>			<b>19,533</b>			
<b>Total assets</b>	<b>\$ 796,392</b>			<b>\$ 755,397</b>			
<b>Interest-bearing liabilities:</b>							
Certificate of Deposits <sup>(5)</sup>	\$ 565,375	\$ 3,415	1.21%	503,987	\$ 2,591	1.03%	
Money Market Deposits <sup>(5)</sup>	52,241	134	0.51	47,230	63	0.27	
<b>Total interest-bearing liabilities</b>	<b>617,616</b>	<b>3,549</b>	<b>1.15</b>	<b>551,217</b>	<b>2,654</b>	<b>0.96</b>	
<b>Non-interest-bearing liabilities:</b>							
Sales and property taxes payable	4,847			4,359			
Accounts payable and accrued expenses	4,907			7,484			
Net deferred income tax liability	17,319			17,829			
<b>Total non-interest-bearing liabilities</b>	<b>27,073</b>			<b>29,672</b>			

<b>Total liabilities</b>	644,689	580,889
<b>Stockholders' equity</b>	151,703	174,508
<b>Total liabilities and stockholders' equity</b>	<b>\$ 796,392</b>	<b>\$ 755,397</b>
<b>Net interest income</b>	<b>\$ 32,169</b>	<b>\$ 30,321</b>
<b>Interest rate spread<sup>(6)</sup></b>	<b>8.07%</b>	<b>8.00%</b>
<b>Net interest margin<sup>(7)</sup></b>	<b>8.30%</b>	<b>8.24%</b>
<b>Ratio of average interest-earning assets to average interest-bearing liabilities</b>	<b>125.47%</b>	<b>133.50%</b>

<sup>(1)</sup> 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.

Six Months Ended June 30, 2016 Compared To Six Months Ended June 30, 2015 Increase (Decrease) Due To:			
	Volume <sup>(1)</sup>	Rate <sup>(1)</sup>	Total
(Dollars in thousands)			
<b>Interest income:</b>			
Interest-earning deposits with banks	\$ (28)	\$ 49	\$ 21
Time Deposits	32	2	34
Securities available for sale	7	4	11
Net investment in leases	2,959	(1,823)	1,136
Loans receivable	1,235	306	1,541
<b>Total interest income</b>	<b>1,782</b>	<b>961</b>	<b>2,743</b>
<b>Interest expense:</b>			
Certificate of Deposits	338	486	824
Money Market Deposits	7	64	71
<b>Total interest expense</b>	<b>343</b>	<b>552</b>	<b>895</b>
<b>Net interest income</b>	<b>1,619</b>	<b>229</b>	<b>1,848</b>

- <sup>(1)</sup> 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 six-month periods ended June 30, 2016 and 2015.

	<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
	<b>(Dollars in thousands)</b>	
Interest income	\$ 35,718	\$ 32,975
Fee income	7,803	7,847
Interest and fee income	43,521	40,822
Interest expense	3,549	2,654
Net interest and fee income	\$ 39,972	\$ 38,168
Average total finance receivables <sup>(1)</sup>	\$ 692,645	\$ 624,600
<b>Percent of average total finance receivables:</b>		
Interest income	10.31 %	10.56 %
Fee income	2.25	2.51
Interest and fee income	12.56	13.07
Interest expense	1.02	0.85
Net interest and fee margin	11.54 %	12.22 %

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

Net interest and fee income increased \$1.8 million, or 4.7%, to \$40.0 million for the six-month period ended June 30, 2016 from \$38.2 million for the six-month period ended June 30, 2015. The annualized net interest and fee margin decreased 68 basis points to 11.54% in the six-month period ended June 30, 2016 from 12.22% for the same period in 2015.

Interest income, net of amortized initial direct costs and fees, increased \$2.7 million, or 8.2%, to \$35.7 million for the six-month period ended June 30, 2016 from \$33.0 million for the six-month period ended June 30, 2015. The increase in interest income was principally due to a decrease in average yield of 25 basis points partially offset by a 10.9% increase in average total finance receivables, which increased \$68.0 million to \$692.6 million at June 30, 2016 from \$624.6 million at June 30, 2015. The increase in average total finance receivables was primarily due to origination volume continuing to exceed lease repayments. The average yield on the portfolio decreased due to lower yields on the new leases compared to the yields on the leases repaying. The weighted average implicit interest rate on new finance receivables originated increased 74 basis points to 11.75% for the six-month period ended June 30, 2016, compared to 11.01% for the six-month period ended June 30, 2015.

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Fee income was \$7.8 million for each of the six-month periods ended June 30, 2016 and June 30, 2015. Fee income included approximately \$2.1 million of net residual income for the six-month period ended June 30, 2016 and \$1.9 million for the six-month period ended June 30, 2015.

Fee income also included approximately \$4.6 million in late fee income for the six-month period ended June 30, 2016, which decreased 6.1% from \$4.9 million for the six-month period ended June 30, 2015.

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Fee income, as an annualized percentage of average total finance receivables, decreased 26 basis points to 2.25% for the six-month period ended June 30, 2016 from 2.51% for the six-month period ended June 30, 2015. Late fees remained the largest component of fee income at 1.33% as an annualized percentage of average total finance receivables for the six-month period ended June 30, 2016, compared to 1.56% for the six-month period ended June 30, 2015. As an annualized percentage of average total finance receivables, net residual income was 0.62% for the six-month period ended June 30, 2016, compared to 0.60% for the six-month period ended June 30, 2015.

Interest expense increased \$0.8 million to \$3.5 million, or 1.15% as an annualized percentage of average deposits for, the six-month period ended June 30, 2016, from \$2.7 million, or 0.96% as an annualized percentage of average deposits, for the six-month period ended June 30, 2015. The increase was primarily due to an increase in rate paid on interest bearing liabilities and to a lesser degree, the increase in the average balances of interest bearing liabilities. Interest expense, as an annualized percentage of average total finance receivables, increased 17 basis points to 1.02% for the six-month period ended June 30, 2016, from 0.85% for the same period in 2015. The average balance of deposits was \$617.6 million and \$551.2 million for the six-month periods ended June 30, 2016 and June 30, 2015, respectively.

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

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

***Insurance income.*** Insurance income increased \$0.4 million to \$3.2 million for the six-month period ended June 30, 2016 from \$2.8 million for the six-month period ended June 30, 2015, primarily due to an increase in the number of contracts enrolled in the insurance program as well as higher average ticket size.

***Other income.*** Other income was \$0.9 million and \$0.8 million for the six-month periods ended June 30, 2016 and June 30, 2015, respectively. Other income primarily includes various administrative transaction fees and fees received from referral of leases to third parties and gain on sale of leases, recognized as earned.

***Salaries and benefits expense.*** Salaries and benefits expense increased \$1.8 million, or 12.7%, to \$16.0 million for the six months ended June 30, 2016 from \$14.2 million for the same period in 2015. The increase was primarily due to an increase in total personnel. Salaries and benefits expense, as an annualized percentage of average total finance receivables, was 4.62% for the six-month period ended June 30, 2016 compared with 4.56% for the same period in 2015.

Total personnel increased to 315 at June 30, 2016 from 302 at June 30, 2015.

***General and administrative expense.*** General and administrative expense increased \$0.7 million, or 8.3%, to \$9.1 million for the six months ended June 30, 2016 from \$8.4 million for the same period in 2015. General and administrative expense as an annualized percentage of average total finance receivables was 2.63% for the six-month period ended June 30, 2016, compared to 2.70% for the six-month period ended June 30, 2015. Selected major

components of general and administrative expense for the six-month period ended June 30, 2016 included \$1.6 million of premises and occupancy expense, \$0.7 million of audit and tax compliance expense, \$1.1 million of data processing expense, and \$0.9 million of marketing expense. In comparison, selected major components of general and administrative expense for the six-month period ended June 30, 2015 included \$1.7 million of premises and occupancy expense, \$0.7 million of audit and tax compliance expense, \$1.0 million of data processing expense, and \$0.6 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 \$0.1 million for the six months ended June 30, 2016, compared to \$0.2 million for the same period in 2015.

***Provision for credit losses.*** The provision for credit losses increased \$0.1 million, or 1.8%, to \$5.7 million for the six-month period ended June 30, 2016 from \$5.6 million for the same period in 2015, primarily due to growth in the portfolio. Lease portfolio losses tend to follow patterns based on the mix of origination vintages comprising the portfolio. The anticipated credit losses from the inception of a particular lease origination vintage to charge-off generally follow a pattern of lower losses for the first few months, followed by increased losses in subsequent months, then lower losses during the later periods of the lease term. Therefore, the seasoning, or mix of origination vintages, of the portfolio affects the timing and amount of anticipated probable and estimable credit losses.

Net charge-offs were \$4.7 million for the six-month period ended June 30, 2016, compared to \$5.5 million for the same period in 2015. The decrease in net charge-offs was primarily due to the ongoing seasoning of the portfolio as reflected in the mix of origination vintages and the mix of credit profiles. Net charge-offs as an annualized percentage of average total finance receivables decreased to 1.36% during the six-month period ended June 30, 2016, from 1.77% for the same period in 2015. The allowance for credit losses increased to approximately \$9.4 million at June 30, 2016, an increase of \$1.0 million from \$8.4 million at December 31, 2015.

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

***Provision for income taxes.*** Income tax expense of \$5.1 million was recorded for the six-month period ended June 30, 2016, compared to an expense of \$5.2 million for the same period in 2015. The change is primarily attributable to the change in pretax income recorded for the six-month period ended June 30, 2016 compared to the six-month period ended June 30, 2015. Our effective tax rate, which is a combination of federal and state income tax rates, was approximately 38.5% for the six-month period ended June 30, 2016, compared to 38.8% for the six-month period ended June 30, 2015.

**FINANCE RECEIVABLES AND ASSET QUALITY**

Our net investment in leases and loans increased \$48.4 million, or 7.1%, to \$730.8 million at June 30, 2016 from \$682.4 million at December 31, 2015. We continue to monitor our credit underwriting guidelines in response to current economic conditions, and we continue to develop our sales organization to increase originations. 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 six-month periods ended June 30, 2016 and June 30, 2015, and the year ended December 31, 2015:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>		<b>Year Ended</b>
	<b>June 30,</b>		<b>June 30,</b>		<b>December</b>
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>31,</b>
	<b>(Dollars in thousands)</b>				<b>2015</b>
Allowance for credit losses, beginning of period	\$ 9,191	\$ 9,231	\$ 8,413	\$ 8,537	\$ 8,537
Charge-offs	(3,180)	(3,457)	(5,999)	(6,600)	(12,453)
Recoveries	751	577	1,273	1,074	2,334
Net charge-offs	(2,429)	(2,880)	(4,726)	(5,526)	(10,119)
Provision for credit losses	2,668	2,216	5,743	5,556	9,995
Allowance for credit losses, end of period	(1) \$ 9,430	\$ 8,567	\$ 9,430	\$ 8,567	\$ 8,413
Annualized net charge-offs to average total finance receivables	(2) 1.38%	1.84%	1.36%	1.77%	1.59%
Allowance for credit losses to total finance receivables, end of period	(2) 1.30%	1.34%	1.30%	1.34%	1.24%
Average total finance receivables	(2) \$ 706,039	\$ 627,079	\$ 692,645	\$ 624,600	\$ 636,790
Total finance receivables, end of period	(2) \$ 727,707	\$ 639,333	\$ 727,707	\$ 639,333	\$ 679,738
Delinquencies greater than 60 days past due	\$ 3,548	\$ 2,899	\$ 3,548	\$ 2,899	\$ 3,163
Delinquencies greater than 60 days past due	(3) 0.43%	0.40%	0.43%	0.40%	0.41%
Allowance for credit losses to delinquent accounts greater than 60 days past due	(3) 265.78%	295.52%	265.78%	295.52%	265.98%
Non-accrual leases and loans, end of period	\$ 1,771	\$ 1,433	\$ 1,771	\$ 1,433	\$ 1,677
	\$ 450	\$ 572	\$ 450	\$ 572	\$ 535

Renegotiated leases and loans, end of period											
Accruing leases and loans past due 90 days or more		\$		\$		\$		\$		\$	
Interest income included on non-accrual leases and loans	(4)	\$	13	\$	20	\$	60	\$	56	\$	153
Interest income excluded on non-accrual leases and loans	(5)	\$	24	\$	18	\$	36	\$	24	\$	41

- (1) At June 30, 2016, December 31, 2015, and June 30, 2015 the allowance for credit losses allocated to loans was \$0.5 million, \$0.2 million, and less than \$0.1 million, respectively.
- (2) Total finance receivables include net investment in direct financing leases and loans. For purposes of asset quality and allowance calculations, the effects of (i) the allowance for credit losses and (ii) initial direct costs and fees deferred are excluded.
- (3) Calculated as a percent of total minimum lease payments receivable for leases and as a percent of principal outstanding for loans.

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

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

Net charge-offs for the three months ended June 30, 2016 were \$2.4 million (1.38% of average total finance receivables on an annualized basis), compared to \$2.3 million (1.35% of average total finance receivables on an annualized basis) for the three months ended March 31, 2016 and \$2.9 million (1.84% of average total finance receivables on an annualized basis) for the three months ended June 30, 2015. Lease portfolio losses tend to follow patterns based on the mix of origination vintages comprising the portfolio. The timing of credit losses from the inception of a particular lease origination vintage to charge-off generally follows a pattern of lower losses for the first few months, followed by increased losses in subsequent months, then lower losses during the later periods of the lease term. Therefore, the seasoning, or mix of origination vintages, of the portfolio affects the timing and amount of charge-offs.

Net charge-offs for the six-month period ended June 30, 2016 were \$4.7 million (1.36% of average total finance receivables on an annualized basis), compared to \$5.5 million (1.77% of average total finance receivables on an annualized basis) for the six-month period ended June 30, 2015. The decrease in charge-off rate is partially due to the ongoing seasoning of the portfolio as reflected in the mix of origination vintages and the mix of credit profiles, as discussed above.

Delinquent accounts 60 days or more past due (as a percentage of minimum lease payments receivable for leases and as a percentage of principal outstanding for loans) were 0.43% at June 30, 2016 and 0.41% at December 31, 2015, compared to 0.40% at June 30, 2015. Supplemental information regarding loss statistics and delinquencies is available on the investor relations section of Marlin's website at [www.marlincorp.com](http://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 June 30, 2016, approximately 69% of our leases were one dollar purchase option leases, 31% were fair market value leases and less than 1% were fixed purchase option leases, the latter of which typically contain an end-of-term purchase option equal to 10% of the original equipment cost. As of June 30, 2016, there were \$27.0 million of residual assets retained on our Consolidated Balance Sheet, of which \$22.5 million, or 83.3%, were related to copiers. As of December 31, 2015, there were \$27.4 million of residual assets retained on our Consolidated Balance Sheet, of which \$22.7 million, or 83.1%, were related to copiers. No other group of equipment represented more than 10% of equipment residuals as of June 30, 2016 and December 31, 2015. Improvements in technology and other market changes, particularly in copiers, could adversely impact our ability to realize the recorded residual values of this equipment.

Fee income included approximately \$1.1 million and \$1.0 million of net residual income for the three-month periods ended June 30, 2016 and June 30, 2015, respectively. Fee income included approximately \$2.1 million and \$1.9 million of net residual income for the six-month periods ended June 30, 2016 and June 30, 2015, respectively. Net residual income includes income from lease renewals and gains and losses on the realization of residual values of leased equipment disposed at the end of term as further described below.

Our leases generally include renewal provisions and many leases continue beyond their initial contractual term. Based on the Company's experience, the amount of ultimate realization of the residual value tends to relate more to the customer's election at the end of the lease term to enter into a renewal period, purchase the leased equipment or return the leased equipment than it does to the equipment type. We consider renewal income a component of residual performance. Renewal income net of depreciation totaled approximately \$1.3 million and \$1.0 million for the three-month periods ended June 30, 2016 and June 30, 2015, respectively. Renewal income net of depreciation totaled approximately \$2.5 million and \$2.1 million for the six-month periods ended June 30, 2016 and June 30, 2015, respectively.

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For each of the three months ended June 30, 2016 and June 30, 2015, the net loss on residual values disposed at end of term totaled \$0.1 million. For the six months ended June 30, 2016, the net loss on residual values disposed at end of term totaled \$0.4 million, compared to a net loss of \$0.2 million for the six months ended June 30, 2015. The primary driver of the changes was a shift in the mix of the amounts, types and age of equipment disposed at the end of the applicable lease term. Historically, our net residual income has exceeded 100% of the residual recorded on such leases. Management performs periodic reviews of the estimated residual values and historical realization statistics no less frequently than quarterly. There was no impairment recognized on estimated residual values during the six-month periods ended June 30, 2016 and June 30, 2015, respectively.

## **LIQUIDITY AND CAPITAL RESOURCES**

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

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

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

With the opening of MBB in 2008, we began to fund increasing amounts of new originations through the issuance of FDIC-insured deposits. Deposits issued by MBB represent our primary funding source for new originations. We also maintain the ability to fund new originations with cash from operations or through borrowings under our loan facility.

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

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

On October 9, 2009, Marlin Business Services Corp.'s affiliate, Marlin's Receivables Corp. ( "MRC" ), closed on a \$75.0 million, three-year committed loan facility with the Lender Finance division of Wells Fargo Capital Finance. The facility is secured by a lien on MRC's assets and is supported by guaranties from Marlin Business Services Corp. and

MLC. Advances under the facility are made pursuant to a borrowing base formula, and the proceeds are used to fund lease originations. On April 8, 2015, the facility was amended to change the amount under the loan facility from \$75.0 million to \$50.0 million. On February 4, 2016, the facility was amended to extend the maturity date to May 4, 2016. On May 4, 2016, the facility was further amended to extend the maturity date to August 4, 2016.

The Company declared a dividend of \$0.14 per share on April 28, 2016. The quarterly dividend was paid on May 19, 2016 to shareholders of record on the close of business on May 9, 2016, which resulted in a dividend payment of approximately \$1.7 million. It represented the Company's nineteenth consecutive quarterly cash dividend.

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At June 30, 2016, we had approximately \$75.0 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 \$78.8 million. This amount excludes additional liquidity that may be provided by the issuance of insured deposits through MBB. Our debt to equity ratio was 4.18 to 1 at June 30, 2016 and 3.92 to 1 at December 31, 2015.

Net cash used in investing activities was \$57.3 million for the six-month period ended June 30, 2016, compared to net cash used in investing activities of \$26.8 million for the six-month period ended June 30, 2015. The decrease in cash flows from investing activities is primarily due to \$54.6 million more of purchases of equipment for direct financing lease contracts and funds used to originate loans partially offset by \$5.6 million less in time deposits with banks and \$16.5 million more of principal collections on leases and loans due to higher average finance receivables. Investing activities primarily relate to leasing activities.

Net cash provided by financing activities was \$58.7 million for the six-month period ended June 30, 2016, compared to net cash used in financing activities of \$2.8 million for the six-month period ended June 30, 2015. The increase in cash flows from financing activities is primarily due to a \$58.4 million increase in deposits. Financing activities include net advances and repayments on our various deposit and borrowing sources and transactions related to the Company's common stock, such as repurchasing common stock and paying dividends.

Additional liquidity is provided by or used by our cash flow from operations. Net cash provided by operating activities was \$17.2 million for the six-month period ended June 30, 2016, compared to net cash provided by operating activities of \$9.6 million for the six-month period ended June 30, 2015.

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

***Total Cash and Cash Equivalents.*** Our objective is to maintain an adequate level of cash, investing any free cash in leases. We primarily fund our originations and growth using FDIC-insured deposits issued through MBB and, to a much lesser extent, advances under our long-term bank facility. Total cash and cash equivalents available as of June 30, 2016 totaled \$78.8 million, compared to \$60.1 million at December 31, 2015.

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

***Restricted Interest-earning Deposits with Banks.*** As of June 30, 2016, we also had less than \$0.1 million of cash that was classified as restricted interest-earning deposits with banks, compared to \$0.2 million at December 31, 2015. Restricted interest-earning deposits with banks consist primarily of trust accounts related to our secured debt facility.

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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 June 30, 2016 and December 31, 2015. Information pertaining to our borrowing facilities is as follows:

	For the Six Months Ended June 30, 2016				As of June 30, 2016		
	Maximum Facility	Maximum Month End Amount	Average Amount	Weighted Average Rate	Amount	Weighted Average Rate	Unused Capacity
	Amount	Outstanding	Outstanding	(2)	Outstanding	(2)	Capacity <sup>(1)</sup>
	(Dollars in thousands)						
Federal funds purchased	\$ 25,000	\$	\$	%	\$	%	\$ 25,000
Long-term loan facilities	50,000			%		%	50,000
	\$ 75,000		\$	%	\$	%	\$ 75,000

(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 June 30, 2016, MBB had \$30.9 million in unused, secured borrowing capacity at the Federal Reserve Discount Window. Additional liquidity that may be provided by the issuance of insured deposits is also excluded from this table.

(2) Does not include transaction costs.

***Federal Funds Line of Credit with Correspondent Bank***

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

***Federal Reserve Discount Window***

In addition, MBB has received approval to borrow from the Federal Reserve Discount Window based on the amount of assets MBB chooses to pledge. MBB had \$30.9 million in unused, secured borrowing capacity at the Federal Reserve Discount Window, based on \$34.2 million of net investment in leases pledged at June 30, 2016.

***Long-term Loan Facilities***

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

amended to extend the maturity date to August 4, 2016. An event of default, such as non-payment of amounts when due under the loan agreement or a breach of covenants, may accelerate the commitment termination date of the facility. There was no amount outstanding under the facility at June 30, 2016.

***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 certain executive officers as described in the loan documents 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.

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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 June 30, 2016 include:

	<b>Actual<sup>(1)</sup></b>	<b>Requirement</b>
Debt-to-equity ratio maximum	4.18 to 1	5.5 to 1
Maximum servicer senior leverage ratio	0 to 1	5.0 to 1
Maximum portfolio delinquency ratio	0.44%	3.50%
Maximum gross charge-off ratio	1.74%	7.00%

<sup>(1)</sup> 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 June 30, 2016, 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.* New capital adequacy standards adopted by the federal bank regulatory agencies establish new minimum capital requirements for the Company and MBB effective on January 1, 2015. Under the risk-based capital requirements applicable to them, bank holding companies must maintain a ratio of total capital to risk-weighted assets (including the asset equivalent of certain off-balance sheet activities such as acceptances and letters of credit) of not less than 8% (10% in order to be considered well-capitalized). The new requirements include a 6% minimum Tier 1 risk-based ratio (8% to be considered well-capitalized). Tier 1 Capital consists of common stock, related surplus, retained earnings, qualifying perpetual preferred stock and minority interests in the equity accounts of certain consolidated subsidiaries, after deducting goodwill and certain other intangibles. The remainder of total capital (Tier 2 Capital) may consist of certain perpetual debt securities, mandatory convertible debt securities, hybrid capital instruments and limited amounts of subordinated debt, qualifying preferred stock, allowance for credit losses on loans and leases, allowance for credit losses on off-balance-sheet credit exposures and unrealized gains on equity securities.

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

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

At June 30, 2016, MBB's Tier 1 leverage ratio, common equity Tier 1 risk-based ratio, Tier 1 risk-based capital ratio and total risk-based capital ratio were 15.92%, 16.89%, 16.89% and 18.12%, respectively, which exceeds requirements for well-capitalized status of 5%, 6.5%, 8% and 10%, respectively. At June 30, 2016, Marlin Business Services Corp.'s Tier 1 leverage ratio, common equity Tier 1 risk based ratio, Tier 1 risk-based capital ratio and total risk-based capital ratio were 18.90%, 20.14%, 20.14% and 21.36%, respectively, which exceeds requirements for well-capitalized status of 5%, 6.5%, 8% and 10%, respectively.

Pursuant to the FDIC Agreement entered into in conjunction with the opening of MBB, MBB is required to keep its total risk-based capital ratio above 15%. MBB's Tier 1 Capital balance at June 30, 2016 was \$127.5 million, which exceeds the regulatory threshold for well capitalized status. Until March 12, 2011, MBB operated in accordance with its original de novo three-year business plan as required by the original order issued by the FDIC when the Company opened MBB. Following the expiration of MBB's three-year de novo period, the Company provided MBB with additional capital to support growth of \$25 million in 2011, \$10 million in 2012, and \$10 million in 2013. Additional capital was not required from the Company in 2014, 2015 or 2016 as MBB is able to support future growth.

**Table of Contents*****Information on Stock Repurchases***

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

***Items Subsequent to June 30, 2016***

The Company declared a dividend of \$0.14 per share on July 28, 2016. The quarterly dividend, which is expected to result in a dividend payment of approximately \$1.8 million, is scheduled to be paid on August 18, 2016 to shareholders of record on the close of business on August 8, 2016. It represents the Company's twentieth consecutive quarterly cash dividend. The payment of future dividends will be subject to approval by the Company's Board of Directors.

***Contractual Obligations***

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

Period Ending December 31,	Certificates of Deposits	Contractual Obligations as of June 30, 2016				Total	
		(1) Contractual Interest Payments <sup>(2)</sup>	Operating Leases	Leased Facilities	Capital Leases		
(Dollars in thousands)							
2016	\$ 120,042	\$ 2,736	\$ 2	\$ 792	\$ 51	\$ 123,623	
2017	222,366	4,862	4	1,527	77	228,836	
2018	127,202	2,889	4	1,468		131,563	
2019	69,926	1,421	4	1,431		72,782	
2020	42,072	567	1	686		43,326	
Thereafter	17,705	655				18,360	
Total	\$ 599,313	\$ 13,130	\$ 15	\$ 5,904	\$ 128	\$ 618,490	

(1) Money market deposit accounts are not included. As of June 30, 2016, money market deposit accounts totaled \$51.1 million.

(2) Includes interest on certificates of deposits and borrowings. Interest on the variable-rate long-term loan facility is assumed at the June 30, 2016 rate for the remaining term.

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

## **MARKET INTEREST RATE RISK AND SENSITIVITY**

Market risk is the risk of losses arising from changes in values of financial instruments. We engage in transactions in the normal course of business that expose us to market risks. We attempt to mitigate such risks through prudent management practices and strategies such as attempting to match the expected cash flows of our assets and liabilities.

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

**RECENTLY ISSUED ACCOUNTING STANDARDS**

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

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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 second fiscal quarter of 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. Other Information**

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

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

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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 the 2014 Repurchase Plan to replace the 2007 Repurchase Plan. Under the 2014 Repurchase Plan, the Company is authorized to repurchase up to \$15 million in value of its outstanding shares of common stock. This authority may be exercised from time to time and in such amounts as market conditions warrant. Any shares purchased under this plan are returned to the status of authorized but unissued shares of common stock. The repurchases may be made on the open market, 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 months ended June 30, 2016, the Company did not repurchase any of its common stock under the 2014 Repurchase Plan in the open market.

In addition to the repurchases described above, pursuant to the 2014 Equity Plan, participants may have shares withheld to cover income taxes. There were 490 shares repurchased to cover income tax withholding in connection with the shares granted under the 2014 Equity Plan during the three-month period ended June 30, 2016, at an average cost of \$14.89 per share. At June 30, 2016, the Company had \$3.2 million remaining in the 2014 Repurchase Plan.

**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 <sup>(1)</sup>
3.2	Bylaws <sup>(2)</sup>
10.1	Employment Offer Letter between Jeffrey A. Hilzinger and Marlin Business Services Corp. dated as of April 25, 2016. <sup>(3)</sup>
10.2	Eighth Amendment, dated as of May 4, 2016, to the Loan and Security Agreement, dated as of October 9, 2009, by and among Marlin Receivables Corp., Marlin Leasing Corporation, Marlin Business Services Corp. and Wells Fargo Foothill, LLC (now known as Wells Fargo Capital Finance, LLC). <sup>(4)</sup>
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 June 30, 2016, formatted in XBRL: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Statements of Stockholders' Equity, (v) the Condensed Consolidated Statements of Cash Flows and (vi) the Notes to Unaudited Condensed Consolidated Financial Statements. (Submitted electronically with this report)

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.
- (3) Previously filed with the SEC as an exhibit to the Company's Current Report on Form 8-K, filed on May 5, 2016 and incorporated by reference herein.
- (4) Previously filed with the SEC as an exhibit to the Company's Current Report on Form 8-K, filed on May 10, 2016 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/ Jeff  
Hilzinger Chief Executive Officer  
Jeff Hilzinger (Chief Executive Officer)

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

Date: July 29, 2016