
Section 1: 10-Q (FORM 10-Q)

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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 March 31, 2019

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$.01 per share	MRLN	The NASDAQ Stock Market LLC

At April 25, 2019, 12,349,023 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 March 31, 2019

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PART I. Financial Information

Item 1. Consolidated Financial Statements

**MARLIN BUSINESS SERVICES CORP.
AND SUBSIDIARIES
Consolidated Balance Sheets
(Unaudited)**

	<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
(Dollars in thousands, except per-share data)		
ASSETS		
Cash and due from banks	\$ 4,737	\$ 5,088
Interest-earning deposits with banks	136,215	92,068
Total cash and cash equivalents	140,952	97,156
Time deposits with banks	11,239	9,659
Restricted interest-earning deposits (Note 13)	13,174	14,045
Investment securities (amortized cost of \$10.8 million and \$11.2 million at March 31, 2019 and December 31, 2018, respectively)	10,676	10,956
Net investment in leases and loans:		
Leases	480,766	489,299
Loans	559,306	527,541
Net investment in leases and loans, excluding allowance for credit losses (includes \$129.4 million and \$150.2 million at March 31, 2019 and December 31, 2018, respectively, related to consolidated VIEs)	1,040,072	1,016,840
Allowance for credit losses	(16,882)	(16,100)
Total net investment in leases and loans	1,023,190	1,000,740
Intangible assets	8,149	7,912
Goodwill	6,735	7,360
Operating lease right-of-use assets	6,048	—
Property and equipment, net	3,992	4,317
Property tax receivables, net of allowance	9,133	5,245
Other assets	13,437	9,656
Total assets	<u>\$ 1,246,725</u>	<u>\$ 1,167,046</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	\$ 840,167	\$ 755,776
Long-term borrowings related to consolidated VIEs	129,171	150,055
Operating lease liabilities	9,104	—
Other liabilities:		
Sales and property taxes payable	8,590	3,775
Accounts payable and accrued expenses	34,105	36,369
Net deferred income tax liability	23,938	22,560
Total liabilities	1,045,075	968,535
Commitments and contingencies (Note 10)		
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; 12,349,076 and 12,367,724 shares issued and outstanding at March 31, 2019 and December 31, 2018, respectively	123	124
Additional paid-in capital	83,215	83,498
Stock subscription receivable	(2)	(2)
Accumulated other comprehensive loss	(4)	(44)
Retained earnings	118,318	114,935
Total stockholders' equity	201,650	198,511
Total liabilities and stockholders' equity	<u>\$ 1,246,725</u>	<u>\$ 1,167,046</u>

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

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

	Three Months Ended March 31,	
	2019	2018
	(Dollars in thousands, except per-share data)	
Interest income	\$ 25,883	\$ 23,279
Fee income	4,042	3,959
Interest and fee income	29,925	27,238
Interest expense	5,962	3,399
Net interest and fee income	23,963	23,839
Provision for credit losses	5,363	4,612
Net interest and fee income after provision for credit losses	18,600	19,227
Non-interest income:		
Insurance premiums written and earned	2,132	1,939
Other income	10,816	3,295
Non-interest income	12,948	5,234
Non-interest expense:		
Salaries and benefits	11,451	10,023
General and administrative	13,354	6,571
Non-interest expense	24,805	16,594
Income before income taxes	6,743	7,867
Income tax expense	1,602	1,682
Net income	\$ 5,141	\$ 6,185
Basic earnings per share	\$ 0.42	\$ 0.50
Diluted earnings per share	\$ 0.41	\$ 0.50

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

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

	Three Months Ended March 31,	
	2019	2018
	(Dollars in thousands)	
Net income	\$ 5,141	\$ 6,185
Other comprehensive income (loss):		
Reclassification due to adoption of ASU 2016-01, ASU 2018-02 and ASU 2018-03	—	107
Increase (decrease) in fair value of debt securities available for sale	54	(79)
Tax effect	(14)	(30)
Total other comprehensive income (loss)	40	(2)
Comprehensive income	<u>\$ 5,181</u>	<u>\$ 6,183</u>

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

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

	<u>Common Shares</u>	<u>Common Stock Amount</u>	<u>Additional Paid-In Capital</u>	<u>Stock Subscription Receivable</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
	(Dollars in thousands)						
Balance, December 31, 2017	12,449,458	\$ 124	\$ 82,588	\$ (2)	\$ (96)	\$ 97,035	\$ 179,649
Repurchase of common stock	(37,026)	—	(1,000)	—	—	—	(1,000)
Restricted stock grant, net of forfeitures	6,065	—	—	—	—	—	—
Stock-based compensation recognized	—	—	921	—	—	—	921
Net change in unrealized gain/loss on securities available for sale, net of tax	—	—	—	—	(59)	—	(59)
Net income	—	—	—	—	—	6,185	6,185
Impact of adoption of new accounting standards ⁽¹⁾	—	—	—	—	57	(57)	—
Cash dividends paid (\$0.14 per share)	—	—	—	—	—	(1,769)	(1,769)
Balance, March 31, 2018	<u>12,418,497</u>	<u>\$ 124</u>	<u>\$ 82,509</u>	<u>\$ (2)</u>	<u>\$ (98)</u>	<u>\$ 101,394</u>	<u>\$ 183,927</u>
Balance, December 31, 2018	12,367,724	124	83,498	(2)	(44)	114,935	198,511
Repurchase of common stock	(48,857)	(1)	(1,144)	—	—	—	(1,145)
Stock issued in connection with restricted stock and RSU's, net of forfeitures	30,209	—	—	—	—	—	—
Stock-based compensation recognized	—	—	861	—	—	—	861
Net change in unrealized gain/loss on securities available for sale, net of tax	—	—	—	—	40	—	40
Net income	—	—	—	—	—	5,141	5,141
Cash dividends paid (\$0.14 per share)	—	—	—	—	—	(1,758)	(1,758)
Balance, March 31, 2019	<u>12,349,076</u>	<u>\$ 123</u>	<u>\$ 83,215</u>	<u>\$ (2)</u>	<u>\$ (4)</u>	<u>\$ 118,318</u>	<u>\$ 201,650</u>

(1) Represents the impact of Accounting Standards Update (“ASU”) 2016-01, ASU 2018-02 and ASU 2018-03
See Note 2 to the consolidated financial statements for more information

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

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**MARLIN BUSINESS SERVICES CORP.
AND SUBSIDIARIES**
Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31,	
	2019	2018
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	\$ 5,141	\$ 6,185
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,209	1,024
Stock-based compensation	861	921
Change in fair value of equity securities	(43)	55
Provision for credit losses	5,363	4,612
Net deferred income taxes	1,364	1,883
Amortization of deferred initial direct costs and fees	3,563	3,202
Loss on equipment disposed	389	310
Gain on leases sold	(3,612)	(1,681)
Leases originated for sale	(10,675)	(547)
Proceeds from sale of leases originated for sale	11,052	558
Operating lease liability payments	(100)	—
Effect of changes in other operating items:		
Other assets	(4,982)	1,058
Other liabilities	2,934	4,122
Net cash provided by operating activities	<u>12,464</u>	<u>21,702</u>
Cash flows from investing activities:		
Net change in time deposits with banks	(1,580)	446
Funds used to originate leases and loans	(197,168)	(165,937)
Principal collections on leases and loans	122,871	115,428
Proceeds from sale of leases originated for investment	45,428	24,104
Security deposits collected, net of refunds	(76)	(93)
Proceeds from the sale of equipment	696	808
Acquisitions of property and equipment	(376)	(246)
Principal payments received on (purchases of) securities available for sale	372	444
Net cash used in investing activities	<u>(29,833)</u>	<u>(25,046)</u>
Cash flows from financing activities:		
Net change in deposits	84,391	23,830
Term securitization repayments	(21,104)	—
Business combinations earn-out consideration payments	(121)	—
Repurchases of common stock	(1,145)	(1,000)
Dividends paid	(1,727)	(1,741)
Net cash provided by financing activities	<u>60,294</u>	<u>21,089</u>
Net increase in total cash, cash equivalents and restricted cash	42,925	17,745
Total cash, cash equivalents and restricted cash, beginning of period	<u>111,201</u>	<u>67,146</u>
Total cash, cash equivalents and restricted cash, end of period	<u>\$ 154,126</u>	<u>\$ 84,891</u>

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

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**MARLIN BUSINESS SERVICES CORP.
AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)**

	Three Months Ended March 31,	
	2019	2018
	(Dollars in thousands)	
Supplemental disclosures of cash flow information:		
Cash paid for interest on deposits and borrowings	\$ 5,204	\$ 3,045
Net cash paid (refunds received) for income taxes	\$ 1,371	\$ (8,092)
Leases transferred into held for sale from investment	\$ 42,193	\$ 22,434
Supplemental disclosures of non cash investing activities:		
Business combinations assets acquired	\$ 146	\$ —
Purchase of equipment for lease contracts and loans originated	\$ 6,979	\$ 5,028
Reconciliation of cash, cash equivalents and restricted cash to the consolidated balance sheets		
Cash and cash equivalents	\$ 140,952	\$ 84,891
Restricted Cash	13,174	—
Cash, cash equivalents and restricted cash at end of period	<u>\$ 154,126</u>	<u>\$ 84,891</u>

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

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MARLIN BUSINESS SERVICES CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – The Company

Description

Marlin Business Services Corp. (the “Company”) is a nationwide provider of credit products and services to small businesses. The products and services we provide to our customers include loans and leases for the acquisition of commercial equipment (including Commercial Vehicle Group (“CVG”) assets which now incorporates Transportation Finance Group (“TFG”)) and working capital loans. The Company was incorporated in the Commonwealth of Pennsylvania on August 5, 2003. In May 2000, we established AssuranceOne, Ltd., a Bermuda-based, wholly-owned captive insurance subsidiary (“Assurance One”), which enables us to reinsure the property insurance coverage for the equipment financed by Marlin Leasing Corporation (“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.

On September 19, 2018, the Company completed the acquisition of Fleet Financing Resources (“FFR”), a leading provider of equipment finance credit products specializing in the leasing and financing of both new and used commercial vehicles, with an emphasis on livery equipment and other types of commercial vehicles used by small businesses. This acquisition is consistent with our strategy of augmenting organic growth with strategic acquisitions that extend our existing equipment finance business into new and attractive markets. The Company paid \$10.0 million in cash for FFR and incurred an immaterial amount of acquisition-related cost. In addition, if FFR generates volume of up to \$542 million from the closing date through September 30, 2026, we have agreed to pay the seller up to an additional \$5.5 million in cash in earn-out consideration. This earn-out consideration will be calculated quarterly based on a sliding scale of percentage of revenue volume that increases as successively greater tiers of volume are attained, and if the maximum earn-out consideration is earned, the total consideration paid for FFR will be \$15.5 million. The valuation of this earn-out will be evaluated in the fourth quarter of each year and more frequently if warranted, and the difference between the revised fair value estimate and the earn-out liability will be recorded in earnings. The Company completed the purchase price allocation in the first quarter of 2019 with \$5.6 million recorded to goodwill and \$7.6 million recorded to intangible assets for vendor relationships and lender relationships, offset by a contingent consideration liability of \$3.2 million representing the estimated fair value of the earn-out. See Note 7 for additional information regarding the identified intangible assets acquired. The acquisition has been accounted for using the acquisition method of accounting. The unaudited pro forma financial information disclosed in the following sentence is for informational purposes only and is not indicative of future operations or results. If the acquisition had occurred at the beginning of 2018, the Company’s total revenue and net income for the three-month period ended March 31, 2018, would have been approximately \$33.9 million and \$6.5 million, respectively.

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 Significant Accounting Policies

Basis of financial statement presentation. The unaudited 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 and loan portfolio and have one product offering. All intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements present the Company’s financial position at March 31, 2019 and the results of operations for the three month periods ended March 31, 2019 and 2018, and cash flows for the three-month periods ended March 31, 2019 and 2018. In Management’s opinion, the unaudited consolidated financial statements contain all adjustments, which include normal and recurring adjustments, necessary for a fair presentation of the financial position and results of operations for the interim periods presented. These unaudited 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 8, 2019. The consolidated results of operations for the three-month periods ended March 31, 2019 and 2018 and the consolidated statements of cash flows for the three-month periods ended March 31, 2019 and 2018 are not necessarily indicative of the results of operations or cash flows for the respective full years or any other period.

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There have been no significant changes to our Significant Accounting Policies as described in our 2018 Annual Report on Form 10-K other than the adoption of ASU 2016-02 as described below.

Recently Issued Accounting Standards.

Fair Value. In August 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* which modifies the disclosures on fair value measurements by removing the requirement to disclose the amount and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of such transfers and the valuation process for Level 3 fair value measurements. The ASU expands the disclosure requirements for Level 3 fair value measurements, primarily focused on changes in unrealized gains and losses included in other comprehensive income. The ASU is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The adoption of this new requirement is not expected to have a material impact on the consolidated earnings, financial position or cash flows of the company.

Intangibles - Goodwill. In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* to clarify the accounting treatment for implementation costs for cloud computing arrangements. The ASU is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The adoption of this new requirement is not expected to have a material impact on the consolidated earnings, financial position or cash flows of the company.

Credit Losses. In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which changes the methodology for evaluating impairment of most financial instruments. The ASU replaces the currently used incurred loss model with a forward-looking current expected loss model which will generally result in more timely recognition of losses. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company has formed a cross functional implementation team to review the requirements of ASU 2016-13. The Company is still evaluating the impact the adoption of this ASU will have on our consolidated financial statements.

Recently Adopted Accounting Standards.

Leases. In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* to increase transparency and comparability among organizations recognizing lease assets and lease liabilities on the balance sheet. The ASU will require lessees to recognize a right-of-use (ROU) asset for its right to use the underlying asset and a lease liability for the corresponding lease obligation for leases with terms of more than twelve months. Accounting by lessors will remain largely unchanged from current U.S. GAAP. The ASU also requires expanded quantitative and qualitative disclosures for both lessees and lessors. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides entities with an additional (and optional) transition method in which the entity applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company has applied the new transition method upon adoption. In December 2018, the FASB issued ASU 2018-20, *Leases (Topic 842): Narrow Scope Improvements for Lessors*, which clarifies the treatment of sales taxes and other taxes collected from lessees, lessor costs paid directly by lessees, and recognition of variable payments for contracts with lease and non-lease components. In March 2019, the FASB issued ASU 2019-01, *Leases (Topic 842): Codification Improvements*, which aligned the new lease guidance with the existing guidance for fair value of the underlying asset by lessors that are not manufacturers or dealers. It also clarified an exemption for lessors and lessees from a certain interim disclosure requirement associated with adopting the board’s new lease accounting standard. The Company adopted the guidance in these ASUs on January 1, 2019. As a result the Company recorded right-of-use assets of \$6.2 million, lease incentive receivables of \$2.8 million and lease liabilities of \$9.1 million. At January 1, 2019, there was no adjustment to opening retained earnings. The Company, as a Lessor, will record property tax income and expense associated with leasing on a gross basis in the Consolidated Statements of Operations. The property tax income and expense are recorded in the same period as earned and incurred, and the Company recognizes a provision for uncollectible property tax revenue as contra-revenue when a loss is probable and collectability is not reasonably assured. In addition, ASU 2016-02 limits the types of direct lease origination costs that are able to be deferred, which will reduce prospective deferred lease origination costs on a unit basis.

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Income Statement. In February 2018, the FASB issued ASU 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The amendments in this Update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (the “TCJA”). Consequently, the amendments eliminate the stranded tax effects resulting from the TCJA and will improve the usefulness of information reported to financial statement users. All entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The amendments in this Update should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the TCJA is recognized. The early adoption of the guidance resulted in an immaterial cumulative-effect adjustment that increased retained earnings and decreased AOCI in the first quarter of 2018 as reflected on the Consolidated Statements of Stockholders’ Equity.

Stock-Based Compensation. In May 2017, the FASB issued ASU 2017-09, *Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting*. The amendments in this ASU provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. An entity should account for the effects of modifications unless all the following are met: 1) the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified; 2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; 3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The current disclosure requirements in Topic 718 apply regardless of whether an entity is required to apply modification accounting under the amendments in this ASU. The amendments in this ASU are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Company adopted these changes effective January 1, 2018 on a prospective basis. Adoption of this ASU did not have a material impact on our results of operations or financial position.

Restricted Cash. In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This Update requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. ASU 2016-18 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, with early adoption permitted. The Company adopted ASU 2016-18 in the first quarter of 2018 as required although it had no restricted cash balances. The Company subsequently acquired restricted cash in the third quarter of 2018 and has applied the guidance appropriately. As a result, the Company includes restricted cash with cash and cash equivalents when reconciling the beginning and end of period total amounts shown on the consolidated statements of cash flows.

Financial Instruments. In January 2016, the FASB issued ASU 2016-01, *Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in this Update require equity securities (including other ownership interests, such as partnerships, unincorporated joint ventures, and limited liability companies) to be measured at fair value with changes in the fair value recognized through net income. The amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted these changes effective January 1, 2018 on a prospective basis. Adoption of this ASU did not have a material impact on our results of operations or financial position.

Revenue Recognition. In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (a new revenue recognition standard)*. The ASU’s core principle is that a company will recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, this ASU specifies the accounting for certain costs to obtain or fulfill a contract with a customer and expands disclosure requirements for revenue recognition. This ASU is effective, as a result of ASU 2015-14, for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company adopted the revenue recognition guidance on January 1, 2018 using the modified retrospective approach. A significant amount of the Company’s revenues is excluded from the scope of the amended guidance, including interest income, fee income, and insurance premiums written and earned, as seen on the Consolidated Statements of Operations. Revenue streams that will be subject to the new revenue recognition guidance includes certain revenues associated with lease and loan contracts including property tax administrative fees, fees billed to customers for the convenience of paying through ACH, and insurance administrative fees. In addition, referral fee income generated

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from referring lease and loan customers to third parties was deemed to be in scope of the amended guidance. The Company analyzed the in scope contracts and determined there were no material changes in the timing of revenue recognition when considering the amended guidance. The adoption of this ASU did not have a material impact on our results of operations, financial position or disclosure to the notes of the consolidated financial statements. The company has included applicable disclosures regarding revenue recognition within Note 3 of the consolidated financial statements.

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NOTE 3 – Non-Interest Income

On January 1, 2018, the Company adopted the amendments of ASU 2014-09 - Revenue from Contracts with Customers (Topic 606) and all subsequent ASUs that modified Topic 606. The Company earns revenue including interest and fees from customers as well as revenues from non-customers. Interest and fee income are outside the scope of ASC Topic 606, Revenue from contracts with customers (Topic 606). Some sources of revenue included in non-interest income fall within the scope of Topic 606, while other sources do not. The Company recognizes revenue when the performance obligations related to the transfer of goods or services under the terms of the contract are satisfied. Some obligations are satisfied at a point in time while others are satisfied over a period of time related to the specific obligation. Revenue is recognized as the amount of consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. When consideration includes a variable component, the amount of consideration attributable to variability is included in the transaction price only to the extent it is probable that significant revenue recognized will not be reversed when uncertainty associated with the variable consideration is subsequently resolved. Generally, the variability relating to the consideration is explicitly stated in the contracts, but may also arise from the Company's customer business practice, for example, waiving certain fees. The Company's contracts generally do not contain terms that require significant judgement to determine the variability impacting the transaction price. The Company has included the following table regarding the Company's non-interest income for the periods presented.

	Three Months Ended March 31,	
	2019	2018
	(Dollars in thousands)	
Insurance premiums written and earned	\$ 2,132	\$ 1,939
Gain on sale of leases and loans	3,612	1,681
Servicing income	287	496
Property tax income	5,643	—
Net gains recognized during the period on equity securities	43	—
Non-interest income within the scope of other GAAP topics	11,717	4,116
Property tax administrative fees on leases	268	191
ACH payment fees	86	85
Insurance policy fees	668	511
Referral fees	155	282
Other	54	49
Non-interest income from contracts with customers	1,231	1,118
Total non-interest income	\$ 12,948	\$ 5,234

The majority of the Company's revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as our leases and loans, investment securities, as well as revenue related to our gain on sale of leases and loans, servicing income, and insurance premiums written and earned. Revenue-generating activities that are within the scope of ASC 606, which are presented in our income statements as components of non-interest income, include certain fees such as property tax administrative fees on leases, ACH payment fees, insurance policy fees outside of the scope of ASC 944, broker fees earned for referring leases and loans to other funding partners, and other fees.

[Table of Contents](#)**NOTE 4 – Investment Securities**

Debt Securities, Available for Sale are recorded at fair value and unrealized gains and losses are reported, net of taxes, in accumulated other comprehensive income (loss) included in stockholders' equity unless management determines that an investment is other-than-temporarily impaired (OTTI). Changes in fair value of equity securities are recorded through the Consolidated Statement of Operations. The amortized cost and estimated fair value of investments, with gross unrealized gains and losses, were as follows as of March 31, 2019 and December 31, 2018:

	March 31, 2019			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
(Dollars in thousands)				
Debt Securities, Available for Sale:				
Asset-backed securities ("ABS")	\$ 4,790	\$ 23	\$ (37)	\$ 4,776
Municipal securities	2,375	32	—	2,407
Equity Securities				
Mutual fund	3,651	—	(158)	3,493
Total investment securities	<u>\$ 10,816</u>	<u>\$ 55</u>	<u>\$ (195)</u>	<u>\$ 10,676</u>
December 31, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(Dollars in thousands)				
Debt Securities, Available for Sale:				
ABS	\$ 4,934	\$ 20	\$ (39)	\$ 4,915
Municipal securities	2,629	3	(20)	2,612
Equity Securities				
Mutual fund	3,631	—	(202)	3,429
Total investment securities	<u>\$ 11,194</u>	<u>\$ 23</u>	<u>\$ (261)</u>	<u>\$ 10,956</u>

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The Company had \$3.5 million and \$3.4 million in equity securities recorded at fair value at March 31, 2019 and December 31, 2018, respectively. The following schedule is a summary of fair value changes recognized in net income on equity securities during the three months ended March 31, 2019 and March 31, 2018:

(Dollars in thousands)	Three Months Ended March 31	
	2019	2018
Net gains (losses) recognized during the period on equity securities	\$ 43	\$ (55)
Less: Net gains (losses) recognized during the period on equity securities sold during the period	—	—
Unrealized gains (losses) recognized during the reporting period on equity securities still held at the reporting date	\$ 43	\$ (55)

The following tables present the aggregate amount of unrealized losses on securities in the Company's investment securities classified according to the amount of time those securities have been in a continuous loss position as of March 31, 2019 and December 31, 2018:

	March 31, 2019					
	Less than 12 months		12 months or longer		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
(Dollars in thousands)						
Debt Securities, Available for Sale:						
ABS	\$ —	\$ —	\$ (37)	\$3,296	\$ (37)	\$3,296
Equity Securities						
Mutual fund	—	—	(158)	3,493	(158)	3,493
Total investment securities	\$ —	\$ —	\$ (195)	\$6,789	\$ (195)	\$6,789

	December 31, 2018					
	Less than 12 months		12 months or longer		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
(Dollars in thousands)						
Debt Securities, Available for Sale:						
ABS	\$ —	\$ —	\$ (39)	\$3,340	\$ (39)	\$3,340
Municipal securities	(16)	1,436	(4)	408	(20)	1,844
Equity Securities						
Mutual fund	—	—	(202)	3,429	(202)	3,429
Total investment securities	\$ (16)	\$1,436	\$ (245)	\$7,177	\$ (261)	\$8,613

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The following table presents the amortized cost, fair value, and weighted average yield of investments in debt securities available for sale at March 31, 2019, by remaining contractual maturity, with the exception of ABS and municipal securities, which are based on estimated average life. Receipt of cash flows may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties:

	March 31, 2019				Total
	1 Year or Less	1-5 Years	5-10 Years	After 10 Years	
(Dollars in thousands)					
Amortized Cost:					
Debt Securities, Available for Sale:					
ABS	\$ —	\$2,915	\$1,908	\$ —	\$4,823
Municipal securities	—	521	1,854	—	2,375
Total debt securities available for sale	<u>\$ —</u>	<u>\$3,436</u>	<u>\$3,762</u>	<u>\$ —</u>	<u>\$7,198</u>
Estimated fair value	\$ —	\$3,431	\$3,784	\$ —	\$7,215
Weighted-average yield, GAAP basis	—	2.30%	2.72%	—	2.52%

OTTI

The Company evaluates all investment securities in an unrealized loss position for OTTI on at least a quarterly basis. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. The OTTI assessment is a subjective process requiring the use of judgments and assumptions. During the securities-level assessments, consideration is given to (1) the intent not to sell and probability that the Company will not be required to sell the security before recovery of its cost basis to allow for any anticipated recovery in fair value, (2) the financial condition and near-term prospects of the issuer, as well as company news and current events, and (3) the ability to collect the future expected cash flows. Key assumptions utilized to forecast expected cash flows may include loss severity, expected cumulative loss percentage, cumulative loss percentage to date, weighted average Fair Isaac Corporation (“FICO®”) scores and weighted average LTV ratio, rating or scoring, credit ratings and market spreads, as applicable.

According to accounting guidance for debt securities in an unrealized loss position, the Company is required to assess whether it has the intent to sell the debt security or more likely than not will be required to sell the debt security before the anticipated recovery. If either of these conditions is met the Company must recognize an other than temporary impairment with the entire unrealized loss being recorded through earnings. For debt securities in an unrealized loss position not meeting these conditions, the Company assesses whether the impairment of a security is other than temporary. If the impairment is deemed to be other than temporary, the Company must separate the other than temporary impairment into two components: the amount representing the credit loss and the amount related to all other factors, such as changes in interest rates. The credit loss represents the portion of the amortized book value in excess of the net present value of the projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment. The credit loss component of the other than temporary impairment is recorded through earnings, whereas the amount relating to factors other than credit losses is recorded in other comprehensive income, net of taxes. The Company did not recognize any OTTI in earnings related to its investment securities for the three months ended March 31, 2019 and March 31, 2018.

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NOTE 5 – Net Investment in Leases and Loans

The Company's lease portfolio is comprised entirely of sales type leases whose terms generally range from 36 to 72 months. At the time of application, small business customers can select a purchase option that will allow them to purchase the equipment at the end of the contract term for either one dollar, the fair market value of the equipment or a specified percentage of the original equipment cost. Alternatively, the customers can continue leasing or return the equipment. We estimate the residual value of the equipment which is recorded as an asset on our balance sheet. Realization of residual values depends on numerous factors including: the general market conditions at the time of expiration of the lease; the customer's election to enter into a renewal period; the cost of comparable new equipment; the obsolescence of the leased equipment; any unusual or excessive wear and tear on or damage to the equipment; the effect of any additional or amended government regulations; and the foreclosure by a secured party of our interest in a defaulted lease.

Net investment in leases and loans consists of the following:

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
	(Dollars in thousands)	
Minimum lease payments receivable	\$ 520,767	\$ 530,867
Estimated residual value of equipment	28,240	27,646
Unearned lease income, net of initial direct costs and fees deferred	(67,479)	(68,376)
Security deposits	(762)	(838)
Total leases	480,766	489,299
Commercial loans, net of origination costs and fees deferred		
Working Capital Loans	43,210	36,856
CRA ⁽¹⁾	1,476	1,466
Equipment loans ⁽²⁾	440,247	423,168
CVG	74,373	66,051
Total commercial loans	559,306	527,541
Allowance for credit losses	(16,882)	(16,100)
	<u>\$ 1,023,190</u>	<u>\$ 1,000,740</u>

(1) CRA loans are comprised of loans originated under a line of credit to satisfy its obligations under the Community Reinvestment Act of 1977.

(2) Equipment loans are comprised of Equipment Finance Agreements, Installment Purchase Agreements and other loans.

At March 31, 2019, \$129.4 million in net investment in leases are pledged as collateral for the Company's outstanding asset-backed securitization balance and \$36.1 million in net investment in leases are pledged as collateral for the secured borrowing capacity at the Federal Reserve Discount Window.

Initial direct costs and origination costs net of fees deferred were \$20.8 million and \$20.5 million as of March 31, 2019 and December 31, 2018, respectively. Initial direct costs are netted in unearned income and are amortized to income using the effective interest method. ASU 2016-02 limited the types of costs that qualify for deferral as initial direct costs for leases, which reduced the deferral of unit lease costs and resulted in an increase in current period expense. Origination costs are netted in commercial loans and are amortized to income using the effective interest method. At March 31, 2019 and December 31, 2018, \$23.9 million and \$23.6 million, respectively, of the estimated residual value of equipment retained on our Consolidated Balance Sheets was related to copiers.

Maturities of lease receivables under lease contracts and the amortization of unearned lease income, including initial direct costs and fees deferred, are as follows as of March 31, 2019:

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Period Ending December 31,	Minimum Lease	Income
	Payments	Amortization
	Receivable ⁽¹⁾	⁽²⁾
	(Dollars in thousands)	
2019	\$ 163,540	\$ 27,172
2020	162,580	22,444
2021	105,790	11,464
2022	58,853	4,839
2023	26,033	1,365
Thereafter	3,971	195
	<u>\$ 520,767</u>	<u>\$ 67,479</u>

(1) Represents the undiscounted cash flows of the lease payments receivable.

(2) Represents the difference between the undiscounted cash flows and the discounted cash flows.

The lease income recognized is as follows:

	March 31, 2019	March 31, 2018
	(Dollars in thousands)	
Selling profit ⁽¹⁾	\$ —	\$ —
Interest income	\$ 10,961	\$ 12,995

(1) The Company does not derive income from the sale of the equipment.

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NOTE 6 – Allowance for Credit Losses

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

The tables which follow provide activity in the allowance for credit losses and asset quality statistics.

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	Three months ended March 31, 2019				
	Commercial Leases and Loans				
(Dollars in thousands)	Working Capital Loans	CRA	Equipment Finance ⁽²⁾	CVG	Total
Allowance for credit losses, beginning of period	\$ 1,467	\$ —	\$ 13,531	\$ 1,102	\$ 16,100
Charge-offs	(673)	—	(4,333)	(328)	(5,334)
Recoveries	19	—	734	—	753
Net charge-offs	(654)	—	(3,599)	(328)	(4,581)
Provision for credit losses	871	—	4,043	449	5,363
Allowance for credit losses, end of period	\$ 1,684	\$ —	\$ 13,975	\$ 1,223	\$ 16,882
Ending lease or loan balance^(1,3)	\$ 42,781	\$ 1,476	\$ 897,359	\$ 77,695	\$ 1,019,311

	Three months ended March 31, 2018				
	Commercial Leases and Loans				
(Dollars in thousands)	Working Capital Loans	CRA	Equipment Finance ⁽²⁾	CVG	Total
Allowance for credit losses, beginning of period	\$ 1,036	\$ —	\$ 12,663	\$ 1,152	\$ 14,851
Charge-offs	(229)	—	(4,029)	(157)	(4,415)
Recoveries	6	—	528	38	572
Net charge-offs	(223)	—	(3,501)	(119)	(3,843)
Provision for credit losses	497	—	3,978	137	4,612
Allowance for credit losses, end of period	\$ 1,310	\$ —	\$ 13,140	\$ 1,170	\$ 15,620
Ending lease or loan balance⁽¹⁾	\$ 30,799	\$ 1,355	\$ 839,714	\$ 55,884	\$ 927,752
Ending balance: individually evaluated for impairment	—	—	597	—	597
Ending balance: collectively evaluated for impairment	\$ 30,799	\$ 1,355	\$ 839,117	\$ 55,884	\$ 927,155

	Year ended December 31, 2018				
	Commercial Leases and Loans				
(Dollars in thousands)	Working Capital Loans	CRA	Equipment Finance ⁽²⁾	CVG	Total
Allowance for credit losses, beginning of period	\$ 1,036	\$ —	\$ 12,663	\$ 1,152	\$ 14,851
Charge-offs	(1,537)	—	(18,149)	(907)	(20,593)
Recoveries	60	—	2,199	61	2,320
Net charge-offs	(1,477)	—	(15,950)	(846)	(18,273)
Provision for credit losses	1,908	—	16,818	796	19,522
Allowance for credit losses, end of period	\$ 1,467	\$ —	\$ 13,531	\$ 1,102	\$ 16,100
Ending lease or loan balance^(1,3)	\$ 36,478	\$ 1,466	\$ 890,785	\$ 67,654	\$ 996,383

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- (1) 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.
- (2) Equipment Finance consists of Equipment Finance Agreements, Install Purchase Agreements, and other leases and loans.
- (3) For the three months ended March 31, 2019, and the year ended December 31, 2018, the Company determined that no leases or loans required individual evaluation.

For the three-month period ended March 31, 2019, the Company sold \$52.9 million of leases and loans from its portfolio for a gain on sale of \$3.6 million. For the year ended December 31, 2018, the Company sold \$139.0 million of leases and loans from its portfolio for a gain on sale of \$8.4 million.

Credit Quality Indicators

The Company's credit review process includes a risk classification of all leases and loans that includes pass, special mention, substandard, doubtful, and loss. The classification of a lease or loan may change based on changes in the creditworthiness of the borrower. The description of the risk classifications are as follows:

Pass: A lease or loan is classified as pass when payments are current and it is performing under the original contractual terms.

Special Mention: A lease or loan is classified as special mention when the borrower exhibits potential credit weakness or a downward trend which, if not checked or corrected, will weaken the asset or inadequately protect the Company's position. While potentially weak, the borrower is currently marginally acceptable; no loss of principal or interest is envisioned.

Substandard: A lease or loan is classified as substandard when the borrower has a well-defined weakness or weaknesses that jeopardize the orderly liquidation of the debt. A substandard loan is inadequately protected by the current net worth and paying capacity of the obligor, normal repayment from this borrower is in jeopardy, and there is a distinct possibility that a partial loss of interest and/or principal will occur if the deficiencies are not corrected.

Doubtful: A lease or loan is classified as doubtful when a borrower has all weaknesses inherent in a loan classified as substandard with the added provision that: (1) the weaknesses make collection of debt in full on the basis of currently existing facts, conditions and values highly questionable and improbable; (2) serious problems exist to the point where a partial loss of principal is likely; and (3) the possibility of loss is extremely high, but because of certain important, reasonably specific pending factors which may work to the advantage and strengthening of the assets, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens and additional refinancing plans.

Loss: A lease or loan is classified as loss when uncollectible and of such little value that its continuance as a bankable asset is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be effected in the future.

The Company charges-off the collateral or discounted cash flow deficiency on all loans on non-accrual status. In all cases, leases and loans are placed on non-accrual when 90 days past due or earlier if collection of principal or interest is considered doubtful.

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The following tables present the segments of the loan portfolio in which a formal risk weighting system is utilized summarized by the categories of “pass” and “special mention”, and the classified categories of “substandard”, “doubtful”, and “loss” within the Company’s risk rating system at March 31, 2019 and December 31, 2018. The data within the tables reflect net investment, excluding deferred fees and cost and allowance:

(Dollars in thousands)	March 31, 2019				
	Commercial Leases and Loans				
	Working Capital Loans	CRA	Equipment Finance	CVG	Total
Pass	\$ 41,848	\$1,476	\$ 885,180	\$76,403	\$1,004,907
Special Mention	73	—	4,451	233	4,757
Substandard	576	—	3,707	688	4,971
Doubtful	284	—	2,515	119	2,918
Loss	—	—	1,506	252	1,758
Total	\$ 42,781	\$1,476	\$ 897,359	\$77,695	\$1,019,311

(Dollars in thousands)	December 31, 2018				
	Commercial Leases and Loans				
	Working Capital Loans	CRA	Equipment Finance	CVG	Total
Pass	\$ 35,793	\$1,466	\$ 879,275	\$66,463	\$ 982,997
Special Mention	47	—	4,373	146	4,566
Substandard	145	—	3,460	660	4,265
Doubtful	300	—	2,353	158	2,811
Loss	193	—	1,324	227	1,744
Total	\$ 36,478	\$1,466	\$ 890,785	\$67,654	\$ 996,383

Troubled debt restructurings are restructurings of leases and loans in which, due to the borrower’s financial difficulties, a lender grants a concession that it would not otherwise consider for borrowers of similar credit quality. As of March 31, 2019 and December 31, 2018, the Company did not have any Troubled debt restructurings.

Loan Delinquencies and Non-Accrual Leases and Loans

Net investments in leases and loans 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 March 31, 2019 and December 31, 2018, there were no finance receivables past due 90 days or more and still accruing.

Working Capital Loans are generally placed in non-accrual status when they are 30 days past due and generally charged-off at 60 days past due. The loan is removed from non-accrual status once sufficient payments are made to bring the loan current and reviewed by management. At March 31, 2019, there were no Working Capital Loans past due 30 days or more and still accruing. At December 31, 2018, there were no Working Capital Loans past due 30 days or more and still accruing.

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Management further monitors the performance and credit quality of the loan portfolio as determined by the length of time a recorded payment is due.

The following tables provide information about delinquent and non-accrual leases and loans in the Company's portfolio as of March 31, 2019 and December 31, 2018:

March 31, 2019 (Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	>90 Days Past Due	Total Past Due	Current	Total Finance Receivables	Non- Accruing
Working Capital Loans	\$ 284	\$ —	\$ —	\$ 284	\$ 42,497	\$ 42,781	\$ 284
CRA	—	—	—	—	1,476	1,476	—
Equipment Finance ⁽¹⁾	4,736	3,106	4,153	11,995	1,009,005	1,021,000	4,153
CVG	203	130	237	570	90,438	91,008	237
Total Leases and Loans ⁽²⁾	<u>\$5,223</u>	<u>\$3,236</u>	<u>\$4,390</u>	<u>\$12,849</u>	<u>\$1,143,416</u>	<u>\$ 1,156,265</u>	<u>\$ 4,674</u>

December 31, 2018 (Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	>90 Days Past Due	Total Past Due	Current	Total Finance Receivables	Non- Accruing
Working Capital Loans	\$ 300	\$ 51	\$ 141	\$ 492	\$ 35,986	\$ 36,478	\$ 492
CRA	—	—	—	—	1,466	1,466	—
Equipment Finance ⁽¹⁾	4,537	3,123	3,529	11,189	1,001,363	1,012,552	3,529
CVG	166	257	191	614	78,407	79,021	191
Total Leases and Loans ⁽²⁾	<u>\$5,003</u>	<u>\$3,431</u>	<u>\$3,861</u>	<u>\$12,295</u>	<u>\$1,117,222</u>	<u>\$ 1,129,517</u>	<u>\$ 4,212</u>

(1) Equipment Finance consists of Equipment Finance Agreements, Install Purchase Agreements, and other leases and loans.

(2) Represents total minimum lease and loan payments receivable for Equipment Finance and CVG and as a percentage of principal outstanding for Working Capital Loans and CRA.

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NOTE 7 - Goodwill and Intangible Assets

Goodwill

The Company's goodwill balance of \$7.4 million at December 31, 2018 included \$1.2 million from the Company's acquisition of Horizon Keystone Financial, an equipment leasing company ("HKF"), in January 2017 and \$6.2 million from the preliminary allocation of the purchase price of the Company's acquisition of FFR in September 2018. The Company completed the purchase price allocation in the first quarter of 2019 upon receiving clarification of certain outstanding matters and established a final goodwill valuation of \$5.6 million resulting in a goodwill reduction of \$0.6 million in the first quarter of 2019. The goodwill balance represents the excess purchase price over the Company's fair value of the assets acquired and is not amortizable but is deductible for tax purposes. Impairment testing will be performed in the fourth quarter of each year and more frequently as warranted in accordance with the applicable accounting guidance.

The changes in the carrying amount of goodwill for the three-month period ended March 31, 2019 are as follows:

(Dollars in thousands)	<u>Total Company</u>
Balance at December 31, 2018	\$ 7,360
Changes	(625)
Balance at March 31, 2019	<u>\$ 6,735</u>

Intangible assets

During the first quarter of 2017, in connection with the acquisition of HKF, the Company acquired certain definite-lived intangible assets with a total cost of \$1.3 million and a weighted average amortization period of 8.7 years. During the third quarter of 2018, in connection with the acquisition of FFR, the Company acquired certain definite-lived intangible assets with a total cost of \$7.2 million based on a preliminary evaluation. The Company subsequently completed the purchase price allocation in the first quarter of 2019 and established a cost of \$7.6 million for the acquired intangible assets and a weighted average amortization period of 10.8 years. The Company had no indefinite-lived intangible assets at March 31, 2019.

The following table presents details of the Company's intangible assets as of March 31, 2019:

(Dollars in thousands)				
Description	<u>Useful Life</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Value</u>
Lender relationships	3 to 10 years	\$1,630	\$ 334	\$1,296
Vendor relationships	11 years	7,290	478	6,812
Corporate trade name	7 years	60	19	41
		<u>\$8,980</u>	<u>\$ 831</u>	<u>\$8,149</u>

There was no impairment of these assets in the first quarter of 2019. Amortization related to the Company's definite lived intangible assets was \$0.2 million for the three-month period ended March 31, 2019 and less than \$0.1 million for the three-month period ended March 31, 2018. The Company expects the amortization expense for the next five years will be as follows:

(Dollars in thousands)	
2019	\$689
2020	798
2021	798
2022	798
2023	798

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NOTE 8 – Other Assets

Other assets are comprised of the following:

	<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
	(Dollars in thousands)	
Accrued fees receivable	\$ 3,388	\$ 3,354
Lease Incentive Receivable	2,836	—
Prepaid expenses	2,995	2,447
Federal Reserve Bank Stock	1,711	1,711
Other	2,507	2,144
	<u>\$ 13,437</u>	<u>\$ 9,656</u>

NOTE 9 – Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (“ROU”) assets and operating lease liabilities on our consolidated balance sheets. ROU assets and operating lease liabilities are recognized based on the present value of the future lease payments over the lease term at commencement date. As most of our leases do not provide an implicit rate, in order to determine the present value of future payments for office leases we use an incremental borrowing rate based on the information available through real estate databases for similar locations and for the present value of future payments for equipment leases we use the average rate of our term note securitization which is collateralized by similar equipment. The ROU asset also includes any lease payments made and excludes lease incentives. Our lease terms may include options to extend when it is reasonably certain that we will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

As of March 31, 2019, the Company leases all six of its office locations including its executive offices in Mt. Laurel, New Jersey, and its offices in or near Salt Lake City, Utah; Portsmouth, New Hampshire; Highlands Ranch, Colorado; Riverside, California; and Philadelphia, Pennsylvania. The Company has elected not to recognize ROU assets and lease liabilities for three office leases whose terms are twelve months or less and are considered short-term leases. Three of the office leases include options to extend for terms of three to ten years. These options have not been recognized as part of our ROU assets and lease liabilities as the Company is not reasonably certain to exercise these options. The Company has also entered into two leases for office equipment for which ROU assets and lease liabilities have been recognized. All the aforementioned leases have been accounted for as operating leases.

The components of lease expense were as follows:

	<u>Three Months Ended March 31,</u>	
	<u>2019</u>	<u>2018</u>
	(Dollars in thousands)	
Operating lease cost	\$ 223	\$ 276
Finance lease costs	—	2
Short-term lease cost	39	—
Total lease cost	<u>\$ 262</u>	<u>\$ 278</u>

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Supplemental information related to leases was as follows:

(Dollars in thousands)	Three Months Ended	
	March 31, 2019	
<u>Supplemental balance sheet information</u>		
Operating lease right-of-use assets	\$	6,048
Operating lease liabilities		9,104
Weighted average remaining lease term		12.3 Years
Weighted average discount rate		3.30%
<u>Supplemental cash flow information</u>		
Operating cash flows from operating leases	\$	100
Right-of-use assets obtained in exchange for lease obligations		6,048

Maturities of lease liabilities were as follows:

Period Ending December 31,	Operating	
	Leases	
	(Dollars in thousands)	
Remainder of 2019	\$	315
2020		1,098
2021		886
2022		791
2023		806
Thereafter		7,378
Total lease payments	\$	11,274
Less: imputed interest		(2,170)
Total	\$	<u>9,104</u>

NOTE 10 – Commitments and Contingencies

MBB is a member bank in a non-profit, multi-financial institution Community Development Financial Institution (“CDFI”) organization. The CDFI serves as a catalyst for community development by offering flexible financing for affordable, quality housing to low- and moderate-income residents, helping MBB meet its Community Reinvestment Act (“CRA”) obligations. Currently, MBB receives approximately 1.2% participation in each funded loan which is collateral for the loan issued to the CDFI 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 March 31, 2019, MBB had an unfunded commitment of \$0.5 million for this activity. MBB’s one-year commitment to the CDFI will expire in September 2019 at which time the commitment may be renewed for another year based on the Company’s discretion.

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.

The following is a schedule of future minimum lease payments for capital and operating leases as of December 31, 2018:

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<u>Period Ending December 31,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>	<u>Total</u>
	(Dollars in thousands)		
2019	\$ 112	\$ 1,582	\$1,694
2020	112	789	901
2021	65	103	168
2022	—	105	105
2023	—	—	—
Total minimum lease payments ⁽¹⁾	<u>\$ 289</u>	<u>\$ 2,579</u>	<u>\$2,868</u>

Rent expense was \$0.2 million and \$0.3 million for the three-month periods ended March 31, 2019 and March 31, 2018, respectively.

NOTE 11 – 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. MBB offers 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 March 31, 2019, money market deposit accounts totaled \$23.0 million.

As of March 31, 2019, the remaining scheduled maturities of certificates of deposits are as follows:

<u>Period Ending December 31,</u>	<u>Scheduled Maturities</u>
	(Dollars in thousands)
2019	\$ 343,259
2020	220,089
2021	149,510
2022	66,008
2023	28,803
Thereafter	11,998
Total	<u>\$ 819,667</u>

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 March 31, 2019 was 2.32%.

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NOTE 12 – Debt and Financing Arrangements

Short-Term Borrowings

On November 20, 2018, the Company closed on a secured, variable rate revolving line of credit in the amount of \$5.0 million due on November 20, 2019. As of March 31, 2019 the Company was in compliance with all debt covenants required under this line of credit and there were no outstanding balances on this line of credit as of March 31, 2019 and December 31, 2018.

Long-term Borrowings

Borrowings with an original maturity date of one year or more are classified as long-term borrowings. The Company's term note securitizations are classified as long-term borrowings.

The Company's long-term borrowings consisted of the following:

	<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
	(Dollars in thousands)	
Term securitization 2018-1	\$ 130,129	\$ 151,233
Unamortized debt issuance costs	(958)	(1,178)
	<u>\$ 129,171</u>	<u>\$ 150,055</u>

On July 27, 2018 the Company completed a \$201.7 million asset-backed term securitization. Each tranche of the term note securitization has a fixed term, fixed interest rate and fixed principal amount. At March 31, 2019, outstanding term securitizations amounted to \$130.1 million and are collateralized by \$147.3 million of minimum lease and loan payments receivable and \$9.1 million of restricted interest-earning deposits.

The July 27, 2018 term note securitization is summarized below:

	<u>Outstanding Balance as of</u> <u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>Notes</u> <u>Originally</u> <u>Issued</u>	<u>Final</u> <u>Maturity</u> <u>Date</u>	<u>Original</u> <u>Coupon</u> <u>Rate</u>
	(Dollars in thousands)				
2018 — 1					
Class A-1	\$ 5,879	\$ 26,983	\$ 77,400	July, 2019	2.55%
Class A-2	55,700	55,700	55,700	October, 2020	3.05
Class A-3	36,910	36,910	36,910	April, 2023	3.36
Class B	10,400	10,400	10,400	May, 2023	3.54
Class C	11,390	11,390	11,390	June, 2023	3.70
Class D	5,470	5,470	5,470	July, 2023	3.99
Class E	4,380	4,380	4,380	May, 2025	5.02
Total Term Note Securitizations	<u>\$ 130,129</u>	<u>\$ 151,233</u>	<u>\$ 201,650</u>		3.05% (1)(2)

(1) Represents the original weighted average initial coupon rate for all tranches of the securitization. In addition to this coupon interest, term note securitizations have other transaction costs which are amortized over the life of the borrowings as additional interest expense.

(2) The weighted average coupon rate of the 2018-1 term note securitization will approximate 3.41% over the term of the borrowing.

Scheduled principal and interest payments on outstanding borrowings as of March 31, 2019 are as follows:

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	<u>Principal</u>	<u>Interest</u>
	<u>(Dollars in thousands)</u>	
Period Ending December 31,		
2019	\$ 52,719	\$ 2,691
2020	45,200	1,993
2021	23,629	813
2022	<u>8,581</u>	<u>158</u>
	<u>\$ 130,129</u>	<u>\$ 5,655</u>

NOTE 13 – 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 March 31, 2019 and December 31, 2018:

	March 31, 2019			December 31, 2018		
	<u>Fair Value Measurements Using</u>			<u>Fair Value Measurements Using</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	(Dollars in thousands)					
Assets						
ABS	\$ —	\$ 4,776	\$ —	\$ —	\$ 4,915	\$ —
Municipal securities	—	2,407	—	—	2,612	—
Mutual fund	3,493	—	—	3,429	—	—

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.

The following summarizes the carrying amount and estimated fair value of the Company's financial instruments that are not recorded on the consolidated balance sheet at fair value as of March 31, 2019 and December 31, 2018:

	<u>March 31, 2019</u>		<u>December 31, 2018</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
(Dollars in thousands)				
Financial Assets				
Cash and cash equivalents	\$ 140,952	\$140,952	\$ 97,156	\$ 97,156
Time deposits with banks	11,239	11,245	9,659	9,614
Restricted interest-earning deposits with banks	13,174	13,174	14,045	14,045
Loans, net of allowance	549,719	553,286	518,697	515,754
Federal Reserve Bank Stock	1,711	1,711	1,711	1,711
Financial Liabilities				
Deposits	\$ 840,167	\$819,893	\$ 755,776	\$722,682
Long-term borrowings	129,171	129,382	150,055	149,912
Servicing Liability	1,588	1,588	1,352	1,352

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 March 31, 2019 and December 31, 2018, because they bear interest at market rates and had maturities of less than 90 days at the time of purchase. The cash equivalents include a money market fund with a balance of \$26.9 million that the Company considers operating cash and has no reportable gross unrealized gains or losses. The fair value measurement of cash and cash equivalents 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 facilities. 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 March 31, 2019 and December 31, 2018. As of March 31, 2019, \$13.2 million was classified as restricted interest-earning deposits in banks, consisting of \$9.1 million in a trust account related to our secured debt facility and \$4.1 million in a trust account reserved for payments related to customer restitution. This fair value measurement is classified as Level 1.

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Loans

The loan balances are comprised of three types of loans. Loans made as a member bank in a non-profit, multi-financial institution CDFI serve 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 March 31, 2019 and December 31, 2018 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 is 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.

Federal Reserve Bank Stock

Federal Reserve Bank Stock are non-marketable equitable equity securities and are reported at their redeemable carrying amounts, which approximates fair value. 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.

Long-Term Borrowings

The fair value of the Company's secured borrowings is estimated by discounting cash flows at indicative market rates applicable to the Company's secured borrowings of the same or similar maturities. This fair value measurement is classified as Level 2.

Servicing Liability

Servicing liabilities do not trade in an active market with readily observable prices. Accordingly, we determined fair value based on a discounted cash flow model which uses various inputs related to the estimated net servicing income, if any, and costs to service discounted back at a discount rate. There were no changes to the valuation techniques for the periods presented. Fair value measurements of our servicing liabilities use unobservable inputs, and accordingly we classify our servicing liability as Level 3.

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NOTE 14 – Earnings Per Share

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

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

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

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

	Three Months Ended March 31,	
	2019	2018
	(Dollars in thousands, except per-share data)	
Basic EPS		
Net income	\$ 5,141	\$ 6,185
Less: net income allocated to participating securities	(72)	(120)
Net income allocated to common stock	<u>\$ 5,069</u>	<u>\$ 6,065</u>
Weighted average common shares outstanding	12,337,730	12,435,148
Less: Unvested restricted stock awards considered participating securities	(172,084)	(246,242)
Adjusted weighted average common shares used in computing basic EPS	<u>12,165,646</u>	<u>12,188,906</u>
Basic EPS	<u>\$ 0.42</u>	<u>\$ 0.50</u>
Diluted EPS		
Net income allocated to common stock	<u>\$ 5,069</u>	<u>\$ 6,065</u>
Adjusted weighted average common shares used in computing basic EPS	12,165,646	12,188,906
Add: Effect of dilutive stock-based compensation awards	86,470	56,113
Adjusted weighted average common shares used in computing diluted EPS	<u>12,252,116</u>	<u>12,245,019</u>
Diluted EPS	<u>\$ 0.41</u>	<u>\$ 0.50</u>

For each of the three-month periods ended March 31, 2019 and March 31, 2018, outstanding stock based compensation awards in the amount of 188,583 and 134,094, respectively, were considered antidilutive and therefore were not considered in the computation of potential common shares for purposes of diluted EPS.

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NOTE 15 – Stockholders' Equity

Stockholders' Equity

On May 30, 2017, the Company's Board of Directors approved a stock repurchase plan (the "2017 Repurchase Plan") under which the Company is authorized to repurchase up to \$10 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-month period ended March 31, 2019, the Company purchased 29,947 shares of its common stock in the open market at an average cost of \$ 23.86 per share. During the three-month period ended March 31, 2018, the Company purchased 17,725 shares of its common stock in the open market at an average cost of \$ 28.21 per share. At March 31, 2019, the Company had \$ 5.0 million of remaining authorization in the 2017 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. During the three-month periods ended March 31, 2019 and March 31, 2018, there were 18,910 shares and 19,301 shares, respectively, repurchased to cover income tax withholding under the 2014 Plan at an average cost of \$ 22.74 per share and \$ 25.91 per share, 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 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.

The Company and MBB operate under the Basel III capital adequacy standards. These standards require a minimum for Tier 1 leverage ratio of 4%, minimum Tier 1 risk-based ratio of 6%, and a total risk-based capital ratio of 8%. The Basel III capital adequacy standards established 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 1.875% for 2018, and 2.5% for 2019 and thereafter. If a banking organization does not maintain capital above the minimum plus the capital conservation buffer it may be subject to restrictions on dividends, share buybacks, and certain discretionary payments such as bonus payments.

The Company plans to provide the necessary capital to maintain MBB at "well-capitalized" status as defined by banking regulations and as required by an agreement entered into by and among MBB, MLC, Marlin Business Services Corp. and the FDIC in conjunction with the opening of MBB (the "FDIC Agreement"). MBB's Tier 1 Capital balance at March 31, 2019 was \$143.4 million, which met

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all capital requirements to which MBB is subject and qualified MBB for “well-capitalized” status. At March 31, 2019, 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.

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 March 31, 2019.

	<u>Actual</u>		<u>Minimum Capital Requirement</u>		<u>Well-Capitalized Capital Requirement</u>	
	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	⁽¹⁾ <u>Amount</u>	<u>Ratio</u>	<u>Amount</u>
(Dollars in thousands)						
Tier 1 Leverage Capital						
Marlin Business Services Corp.	15.41%	\$186,770	4%	\$ 48,477	5%	\$ 60,596
Marlin Business Bank	14.29%	\$143,392	5%	\$ 50,173	5%	\$ 50,173
Common Equity Tier 1 Risk-Based Capital						
Marlin Business Services Corp.	17.25%	\$186,770	4.5%	\$ 48,723	6.5%	\$ 70,377
Marlin Business Bank	15.65%	\$143,392	6.5%	\$ 64,123	6.5%	\$ 64,123
Tier 1 Risk-based Capital						
Marlin Business Services Corp.	17.25%	\$186,770	6%	\$ 64,964	8%	\$ 86,618
Marlin Business Bank	15.65%	\$143,392	8%	\$ 77,864	8%	\$ 77,864
Total Risk-based Capital						
Marlin Business Services Corp.	18.50%	\$200,346	8%	\$ 86,618	10%	\$ 108,273
Marlin Business Bank	16.91%	\$154,882	15%	\$137,407	10% ⁽¹⁾	\$ 96,185

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

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

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

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

- prohibiting the payment of principal and interest on subordinated debt;
- prohibiting the holding company from making distributions without prior regulatory approval;
- placing limits on asset growth and restrictions on activities;
- placing additional restrictions on transactions with affiliates;
- restricting the interest rate the institution may pay on deposits;
- prohibiting the institution from accepting deposits from correspondent banks; and
- in the most severe cases, appointing a conservator or receiver for the institution.

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

Pursuant to the FDIC Agreement entered into in conjunction with the opening of MBB, MBB must keep its total risk-based capital ratio above 15%. MBB's total risk-based capital ratio of 16.91% at March 31, 2019 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 16 – 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, stock units, stock awards, and other equity awards is 1,200,000 with not more than 1,000,000 of such shares available for issuance as stock units, stock awards, and other equity awards. There were 183,999 shares available for future grants under the 2014 Plan as of March 31, 2019, of which 128,164 shares were available to be issued as stock units, stock awards, and other equity awards.

Total stock-based compensation expense was \$0.9 million and \$0.9 million for the three-month periods ended March 31, 2019 and March 31, 2018, respectively. Excess tax benefits from stock-based payment arrangements was less than \$0.1 million and \$0.1 million for the three-month periods ended March 31, 2019 and March 31, 2018, respectively.

Stock Options

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

In previous years, the Company has also issued stock options to non-employee independent directors. These options generally vest in one year.

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There were no stock options granted during the three-month period ended March 31, 2019. There were 68,689 stock options granted during the three-month period ended March 31, 2018. The fair value of stock options granted during the three-month period ended March 31, 2018 was \$7.21. The fair value was estimated on the date of grant using the Black-Scholes option pricing model using the following weighted average assumptions:

Three Months Ended March 31, 2018	
Risk-free interest rate	2.64%
Expected life (years)	4.50
Expected volatility	32.32%
Expected dividends	1.98%

The expected life for options is estimated based on their vesting and contractual terms and was determined by applying the simplified method as defined by the SEC's Staff Accounting Bulletin No. 107 ("SAB 107"). The risk-free interest rate reflected the yield on zero-coupon Treasury securities with a term approximating the expected life of the stock options. The expected volatility was determined using historical volatilities based on historical stock prices.

A summary of option activity for the three-month period ended March 31, 2019 follows:

Options	Number of Shares	Weighted Average Exercise Price Per Share
Outstanding, December 31, 2018	146,431	\$ 26.77
Granted	—	—
Exercised	—	—
Forfeited	—	—
Expired	(3,175)	25.75
Outstanding, March 31, 2019	<u>143,256</u>	26.80

During both three-month periods ended March 31, 2019 and March 31, 2018, the Company recognized compensation expense related to options of \$0.1 million.

There were no stock options exercised during the three-month period ended March 31, 2019. There were no stock options exercised during the three-month period ended March 31, 2018.

The following table summarizes information about the stock options outstanding and exercisable as of March 31, 2019.

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Range of Exercise Prices	Options Outstanding				Options Exercisable			
	Number Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (In thousands)	Number Exercisable	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (In thousands)
\$25.75	83,235	5.0	\$ 25.75	\$ —	55,165	5.0	\$ 25.75	\$ —
\$28.25	60,021	6.0	\$ 28.25	\$ —	20,001	6.0	\$ 28.25	\$ —
	<u>143,256</u>	5.4	\$ 26.80	\$ —	<u>75,166</u>	5.3	\$ 26.42	\$ —

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the Company's closing stock price of \$21.50 as of March 31, 2019, which would have been received by the option holders had all option holders exercised their options as of that date.

As of March 31, 2019, there was \$0.5 million of unrecognized compensation cost related to non-vested stock options not yet recognized in the Consolidated Statements of Operations scheduled to be recognized over a weighted average period of 1.3 years.

Restricted Stock Awards

The Company's 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 seven 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.

Of the total restricted stock awards granted during the three-month period ended March 31, 2019, no shares may be subject to accelerated vesting based on individual performance factors; no shares have vesting contingent upon performance factors. Vesting was accelerated in 2018 and 2019 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 three-month period ended March 31, 2019:

Non-vested restricted stock	Shares	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2018	186,603	\$ 19.91
Granted	600	23.86
Vested	(31,547)	15.87
Forfeited	(900)	21.08
Outstanding at March 31, 2019	<u>154,756</u>	20.74

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During both three-month periods ended March 31, 2019 and March 31, 2018, the Company granted restricted stock awards with a grant date fair values totaling less than \$0.1.

As vesting occurs, or is deemed likely to occur, compensation expense is recognized over the requisite service period and additional paid-in capital is increased. The Company recognized \$0.3 million and \$0.6 million of compensation expense related to restricted stock for the three-month periods ended March 31, 2019 and March 31, 2018, respectively.

Of the \$0.3 million total compensation expense related to restricted stock for the three-month period ended March 31, 2019, approximately \$0.1 million related to accelerated vesting based on achievement of certain performance criteria determined annually. Of the \$0.6 million total compensation expense related to restricted stock for the three-month period ended March 31, 2018, approximately \$0.3 million related to accelerated vesting, which was also based on the achievement of certain performance criteria determined annually.

As of March 31, 2019, there was \$1.7 million of unrecognized compensation cost related to non-vested restricted stock compensation scheduled to be recognized over a weighted average period of 3.6 years. As of March 31, 2019, there was no restricted stock awards outstanding for which vesting may be accelerated based on achievement of individual performance measures.

The fair value of shares that vested during the three-month periods ended March 31, 2019 and March 31, 2018 was \$0.7 million and \$1.2 million, respectively.

Restricted Stock Units

Restricted stock units (“RSUs”) are granted with vesting conditions based on fulfillment of a service condition (generally three to four years from the grant date), and may also require achievement of certain operating performance criteria, achievement of certain market-based targets associated with the Company’s stock price or relative total shareholder return, or a combination of both performance criteria and market-based targets. Expense for equity based awards with market and service conditions is recognized over the service period based on the grant-date fair value of the award. Expense for equity based awards with market and performance conditions is recognized over the performance period based on the grant-date fair value of the award for those awards which are expected to be earned.

In the second quarter of 2018, the Company modified the terms of the portion of certain outstanding 2017 performance based RSUs that are based on actual versus targeted operating performance criteria over the performance period. The modification eliminated the tax benefit that arose from the Tax Cuts and Jobs Act enacted in December of 2017. This modification did not result in any incremental compensation costs.

The following tables summarize restricted stock unit activity for the three-month period ended March 31, 2019:

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	Number of RSUs	Weighted Average Grant-Date Fair Value
Performance-based & market-based RSUs		
Outstanding at December 31, 2018	191,921	\$ 17.43
Granted	95,408	18.37
Forfeited	—	—
Converted	(8,000)	9.47
Cancelled due to non-achievement of market condition	(4,000)	9.47
Outstanding at March 31, 2019	<u>275,329</u>	18.10
Service-based RSUs		
Outstanding at December 31, 2018	61,256	\$ 27.61
Granted	74,620	21.50
Forfeited	—	—
Converted	(22,509)	27.47
Outstanding at March 31, 2019	<u>113,367</u>	23.62

There were no RSUs with vesting conditions based solely on market conditions granted during the three-month periods ended March 31, 2019 and March 31, 2018. There were no RSUs with both market and performance based vesting conditions granted during the three-month period ended March 31, 2018. The weighted average grant-date fair value of RSUs with both performance and market based vesting conditions granted during the three-month period ended March 31, 2019 was \$12.91 per unit. The weighted average grant date fair value of these performance and market based RSUs was estimated using a Monte Carlo simulation valuation model with the following assumptions:

	<u>Three Months Ended March 31,</u>	
	<u>2019</u>	<u>2018</u>
Grant date stock price	\$ 21.50	—
Risk-free interest rate	2.16%	— %
Expected volatility	26.68%	— %

The risk free interest rate reflected the yield on zero coupon Treasury securities with a term approximating the expected life of the RSUs. The expected volatility was based on historical volatility of the Company's common stock. Dividend yield was assumed at zero as the grant assumes dividends distributed during the performance period are reinvested. When valuing the grant, we have assumed a dividend yield of zero, which is mathematically equivalent to reinvesting dividends in the issuing entity.

During the three-month periods ended March 31, 2019 and March 31, 2018, the Company granted RSUs with grant-date fair values totaling \$3.4 million and \$2.4 million, respectively. The Company recognized \$0.5 million and \$0.3 million of compensation expense related to RSUs for the three month periods ended March 31, 2019 and March 31, 2018, respectively. As of March 31, 2019, there was \$5.4 million of unrecognized compensation cost related to RSUs scheduled to be recognized over a weighted average period of 1.9 years based on the most probable performance assumptions. In the event maximum performance targets are achieved, an additional \$3.7 million of compensation cost would be recognized over a weighted average period of 2.1 years. As of March 31, 2019, 210,211 performance units are expected to convert to shares of common stock based on the most probable performance assumptions. In the event maximum performance targets are achieved, 484,873 performance units would convert to shares of common stock.

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NOTE 17 – Subsequent Events

The Company declared a dividend of \$0.14 per share on May 2, 2019. The quarterly dividend, which is expected to result in a dividend payment of approximately \$1.7 million, is scheduled to be paid on May 23, 2019 to shareholders of record on the close of business on May 13, 2019. It represents the Company's thirty-first consecutive quarterly cash dividend. The payment of future dividends will be subject to approval by the Company's Board of Directors.

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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, 2018 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,” “may depend,” “believe,” “estimate,” “intend,” “could,” “should,” “would,” “if” and similar words and phrases that constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “1933 Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “1934 Act”). Forward-looking statements are subject to various known and unknown risks and uncertainties and the Company cautions that any forward-looking information provided by or on its behalf is not a guarantee of future performance. Statements regarding the following subjects are forward-looking by their nature: (a) our business strategy; (b) our projected operating results; (c) our ability to obtain external deposits or financing; (d) our understanding of our competition; and (e) industry and market trends. The Company’s actual results could differ materially from those anticipated by such forward-looking statements due to a number of factors, some of which are beyond the Company’s control, including, without limitation:

- availability, terms and deployment of funding and capital;
- changes in our industry, interest rates, the regulatory environment or the general economy resulting in changes to our business strategy;
- the degree and nature of our competition;
- availability and retention of qualified personnel;
- general volatility of the capital markets; and
- the factors set forth in the section captioned “Risk Factors” in Item 1 of our Form 10-K for the year ended December 31, 2018 filed with the SEC.

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

OVERVIEW

Founded in 1997, we are a nationwide provider of credit products and services to small businesses. The products and services we provide to our customers include loans and leases for the acquisition of commercial equipment (including Commercial Vehicle Group (“CVG”) assets) and working capital loans. We acquire our small business customers primarily by offering equipment financing through independent commercial equipment dealers and various national account programs, through direct solicitation of our small business customers and through relationships with select lease and loan brokers. We also extend financing through direct solicitation of our existing small business customers. Through these origination partners, we are able to cost-effectively access small business customers while also helping our origination partners obtain financing for their customers.

Our leases and loans are fixed-rate transactions with terms generally ranging from 36 to 60 months. At March 31, 2019, our lease and loan portfolio consisted of 93,901 accounts, excluding working capital loans, with an average original term of 48 months and average original transaction size of approximately \$17,000.

MBB offers a flexible loan program called Working Capital Loans (formerly called Funding Stream.) Working Capital Loans is tailored to the small business market to provide customers access to capital to help grow their businesses. As of March 31, 2019, the Company had approximately \$43.2 million, not including the allowance for credit losses allocated to loans of \$1.7 million, of small business loans on the balance sheet. Generally, these loans range from \$5,000 to \$200,000, have flexible 6 to 24 month terms, and have automated daily, weekly and monthly payback.

At March 31, 2019, we had \$1.25 billion in total assets. Our assets are substantially comprised of our net investment in leases and loans which totaled \$1,023.2 million at March 31, 2019.

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Our revenue consists of interest and fees from our leases and loans, interest income from our interest earning cash and investments and, to a lesser extent, non-interest income from insurance premiums written and earned and other income. Our expenses consist of interest expense and non-interest expense, which include salaries and benefits and general and administrative expenses. As a credit lender, our earnings are also impacted by credit losses. For the quarter ended March 31, 2019, our annualized net credit losses were 1.83% 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 sales type leases, and we recognize interest income over the term of the lease. Sales type leases transfer substantially all of the benefits and risks of ownership to the equipment lessee. Net investment in 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 59% of our lease portfolio at March 31, 2019 amortizes over the lease term to a \$1 residual value. For the remainder of the portfolio, we must estimate end of term residual values for the leased assets. Failure to correctly estimate residual values could result in losses being realized on the disposition of the equipment at the end of the lease term.

We fund our business primarily through the issuance of fixed and variable-rate FDIC-insured deposits and money market demand accounts raised nationally by MBB, as well as, from time to time, fixed-rate asset backed securitization transactions.

We anticipate that FDIC-insured deposits issued by MBB will continue to represent our primary source of funds for the foreseeable future. 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. As of March 31, 2019, total MBB deposits were \$840.2 million, compared to \$755.8 million at December 31, 2018. We had \$129.2 million of outstanding secured borrowings as of March 31, 2019 and none as of December 31, 2018.

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. On September 19, 2018, we acquired Fleet Financing Resources ("FFR"), an equipment financing and leasing company specializing in both new and used commercial vehicles. This acquisition will augment our organic growth by extending our existing equipment finance business into new and attractive markets.

CRITICAL ACCOUNTING POLICIES

There have been no significant changes to our Critical Accounting Policies as described in our Form 10-K for the year ended December 31, 2018.

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.

RECENTLY ADOPTED ACCOUNTING STANDARDS

Information on recently adopted 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.

RESULTS OF OPERATIONS

Comparison of the Three-Month Periods Ended March 31, 2019 and March 31, 2018

Net income. Net income of \$5.1 million was reported for the three-month period ended March 31, 2019, resulting in diluted EPS of \$0.41, compared to net income of \$6.2 million and diluted EPS of \$0.50 for the three-month period ended March 31, 2018. This decrease was primarily due to an increase in interest expense of \$2.6 million primarily due to the interest on the asset backed securitization completed in the third quarter of 2018 and an increase in the provision for credit losses of \$0.8 million on a larger portfolio offset by an increase in interest and fee income of \$2.7 million.

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Return on average assets was 1.69% for the three-month period ended March 31, 2019, compared to a return of 2.37% for the three-month period ended March 31, 2018. Return on average equity was 10.45% for the three-month period ended March 31, 2019, compared to a return of 13.69% for the three-month period ended March 31, 2018.

Overall, our average net investment in total finance receivables for the three-month period ended March 31, 2019 increased 9.4% to \$999.4 million, compared to \$913.8 million for the three-month period ended March 31, 2018. This change was primarily due to origination volume exceeding lease and loan repayments, sales and charge-offs. The end-of-period net investment in total finance receivables at March 31, 2019 was \$1,023.2 million, an increase of \$22.5 million, or 2.2%, from \$1,000.7 million at December 31, 2018.

During the three months ended March 31, 2019, we generated 7,467 new equipment finance lease and loans with equipment cost of \$169.8 million, compared to 7,764 new equipment finance lease and loans with equipment cost of \$141.6 million generated for the three months ended March 31, 2018. Working Capital Loans originations were \$23.6 million during the three-month period ended March 31, 2019, an increase of \$5.6 million, or 30.8%, as compared to the three-month period ended March 31, 2018. Approval rates increased by 2% to 58% for the three-month period ended March 31, 2019, compared to 56% for the three-month period ended March 31, 2018.

For the three-month period ended March 31, 2019 compared to the three-month period ended March 31, 2018, net interest and fee income increased \$0.2 million, or 0.8%, while provision for credit losses increased \$0.8 million to \$5.4 million on a larger 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 March 31, 2019 and March 31, 2018.

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	Three Months Ended March 31,					
	2019			2018		
	Average Balance ⁽¹⁾	Interest	Average Yields/ Rates ⁽²⁾	Average Balance ⁽¹⁾	Interest	Average Yields/ Rates ⁽²⁾
(Dollars in thousands)						
Interest-earning assets:						
Interest-earning deposits with banks	\$ 126,798	\$ 773	2.44%	\$ 75,211	\$ 249	1.32%
Time Deposits	10,466	61	2.35	7,912	29	1.45
Restricted interest-earning deposits with banks	15,620	30	0.00	0	0	—
Securities available for sale	10,720	69	2.56	11,202	42	1.51
Net investment in leases ⁽³⁾	918,655	20,934	9.12	858,410	20,142	9.39
Loans receivable ⁽³⁾	80,776	4,016	19.89	55,394	2,817	20.34
Total interest-earning assets	1,163,035	25,883	8.90	1,008,129	23,279	9.24
Non-interest-earning assets:						
Cash and due from banks	5,600			574		
Intangible assets	7,852			1,110		
Goodwill	7,340			1,160		
Operating Lease right-of-use assets	3,903			0		
Property and equipment, net	4,282			4,193		
Property tax receivables	6,614			8,098		
Other assets ⁽⁴⁾	17,002			18,860		
Total non-interest-earning assets	52,593			33,995		
Total assets	\$1,215,628			\$1,042,124		
Interest-bearing liabilities:						
Certificate of Deposits ⁽⁵⁾	\$ 793,665	\$ 4,447	2.24%	\$ 794,976	\$ 3,246	1.63%
Money Market Deposits ⁽⁵⁾	23,236	142	2.44	35,913	153	1.70
Long-term borrowings ⁽⁵⁾	140,500	1,373	3.91	—	0	—
Total interest-bearing liabilities	957,401	5,962	2.49	830,889	3,399	1.63
Non-interest-bearing liabilities:						
Sales and property taxes payable	5,380			3,971		
Operating lease liabilities	5,890			0		
Accounts payable and accrued expenses	27,185			9,204		
Net deferred income tax liability	22,947			17,298		
Total non-interest-bearing liabilities	61,402			30,473		
Total liabilities	1,018,803			861,362		
Stockholders' equity	196,825			180,762		
Total liabilities and stockholders' equity	\$1,215,628			\$1,042,124		
Net interest income		\$ 19,921			\$ 19,880	
Interest rate spread⁽⁶⁾			6.41%			7.61%
Net interest margin⁽⁷⁾			6.85%			7.89%
Ratio of average interest-earning assets to average interest-bearing liabilities						
			121.48%			121.33%

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- (1) Average balances were calculated using average daily balances.
- (2) Annualized.
- (3) Average balances of leases and loans include non-accrual leases and loans, and are presented net of unearned income. The average balances of leases and loans do not include the effects of (i) the allowance for credit losses and (ii) initial direct costs and fees deferred.
- (4) Includes operating leases.
- (5) Includes effect of transaction costs. Amortization of transaction costs is on a straight-line basis, resulting in an increased average rate whenever average portfolio balances are at reduced levels.
- (6) Interest rate spread represents the difference between the average yield on interest-earning assets and the average rate on interest-bearing liabilities.
- (7) Net interest margin represents net interest income as an annualized percentage of average interest-earning assets.

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

	Three Months Ended March 31, 2019 Compared To Three Months Ended March 31, 2018		
	Increase (Decrease) Due To:		
	Volume⁽¹⁾	Rate⁽¹⁾	Total
	(Dollars in thousands)		
Interest income:			
Interest-earning deposits with banks	\$ 234	\$ 290	\$ 524
Time Deposits	11	21	32
Restricted interest-earning deposits with banks	30	—	30
Securities available for sale	(1)	28	27
Net investment in leases	1,385	(593)	792
Loans receivable	1,264	(65)	1,199
Total interest income	3,472	(868)	2,604
Interest expense:			
Certificate of Deposits	(5)	1,206	1,201
Money Market Deposits	(64)	53	(11)
Long-term borrowings	1,373	—	1,373
Total interest expense	579	1,984	2,563
Net interest income	2,838	(2,797)	41

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

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Net interest and fee margin. The following table summarizes the Company's net interest and fee income as an annualized percentage of average total finance receivables for the three-month periods ended March 31, 2019 and March 31, 2018.

	Three Months Ended March 31,	
	2019	2018
	(Dollars in thousands)	
Interest income	\$ 25,883	\$ 23,279
Fee income	4,042	3,959
Interest and fee income	29,925	27,238
Interest expense	5,962	3,399
Net interest and fee income	\$ 23,963	\$ 23,839
Average total finance receivables ⁽¹⁾	\$ 999,432	\$ 913,804
Annualized percent of average total finance receivables:		
Interest income	10.36%	10.19%
Fee income	1.62	1.73
Interest and fee income	11.98	11.92
Interest expense	2.39	1.49
Net interest and fee margin	9.59%	10.43%

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

Net interest and fee income increased \$0.2 million, or 0.8%, to \$24.0 million for the three months ended March 31, 2019 from \$23.8 million for the three months ended March 31, 2018. The annualized net interest and fee margin decreased 84 basis points to 9.59% in the three-month period ended March 31, 2019 from 10.43% for the corresponding period in 2018.

Interest income, net of amortized initial direct costs and fees, was \$25.9 million and \$23.3 million for the three-month periods ended March 31, 2019 and March 31, 2018, respectively. Average total finance receivables increased \$85.6 million, or 9.4%, to \$999.4 million at March 31, 2019 from \$913.8 million at March 31, 2018. The increase in average total finance receivables was primarily due to origination volume continuing to exceed lease and loan repayments, sales and charge-offs. The average yield on the portfolio remained constant at 10.36%. The weighted average implicit interest rate on new finance receivables originated was 12.76% and 12.45% for the three-month periods ended March 31, 2019, and March 31, 2018, respectively.

Fee income was \$4.0 million and \$4.0 million for the three-month periods ended March 31, 2019 and March 31, 2018, respectively. Fee income included approximately \$1.0 million of net residual income for each of the three-month periods ended March 31, 2019 and March 31, 2018, respectively.

Fee income also included approximately \$2.3 million in late fee income for the both three-month periods ended March 31, 2019 and March 31, 2018.

Fee income, as an annualized percentage of average total finance receivables, decreased 11 basis points to 1.62% for the three-month period ended March 31, 2019 from 1.73% for the corresponding period in 2018. Late fees remained the largest component of fee income at 0.94% as an annualized percentage of average total finance receivables for the three-month period ended March 31, 2019, compared to 1.09% for the three-month period ended March 31, 2018. As an annualized percentage of average total finance receivables, net residual income was 0.41% for the three-month period ended March 31, 2019, compared to 0.39% for the three-month period ended March 31, 2018.

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Interest expense increased \$2.6 million to \$6.0 million for the three-month period ended March 31, 2019 from \$3.4 million for the corresponding period in 2018. A significant component of the increase was \$1.4 million attributable to our long-term borrowings related to our 2018 asset-backed term securitization. The remaining increase of \$1.2 million represented \$4.6 million interest expense or 2.25% as an annualized percentage of average deposits for the three-month period ended March 31, 2019, from \$3.4 million, or 1.63% as an annualized percentage of average deposits for the three-month period ended March 31, 2018. The increase was primarily due to an increase in the 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 90 basis points to 2.39% for the three-month period ended March 31, 2019, from 1.49% for the corresponding period in 2018. The average balance of deposits was \$816.9 million and \$830.9 million for the three-month periods ended March 31, 2019 and March 31, 2018, respectively.

For the three-month period ended March 31, 2019, average term securitization borrowings outstanding were \$140.5 million at a weighted average coupon of 3.91%. There were no outstanding borrowings for the period ended March 31, 2018.

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 March 31, 2019, brokered certificates of deposit represented approximately 52% of total deposits, while approximately 45% of total deposits were obtained from direct channels, and 3% were in the brokered MMDA Product.

Insurance premiums written and earned. Insurance premiums written and earned increased \$0.2 million to \$2.1 million for the three-month period ended March 31, 2019, from \$1.9 million for the three-month period ended March 31, 2018, 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 \$10.8 million and \$3.3 million for the three-month periods ended March 31, 2019 and March 31, 2018, respectively. A major component of the \$7.5 million increase in other income is property tax income that was previously netted against property tax expense prior to the first quarter of 2019, but is presented as a separate component of revenue for the three months ended March 31, 2019, as a result of the adoption of ASU 2016-02 and related ASUs. Other income also includes various administrative transaction fees and fees received from referral of leases to third parties, and gain on sale of leases and servicing fee income, recognized as earned. Selected major components of other income for the three-month period ended March 31, 2019 included \$5.6 million in property tax income, \$4.1 million in income attributed to capital markets related activities, including gain on sale, servicing revenue and referral fee income, and \$0.7 million of insurance policy fees. In comparison, selected major components of other income for the three-month period ended March 31, 2018 included \$2.5 million in income attributed to capital markets related activities, including gain on sale, servicing revenue and referral fee income and \$0.5 million of insurance policy fees.

Salaries and benefits expense. Salaries and benefits expense increased \$1.5 million, or 15.0%, to \$11.5 million for the three-month period ended March 31, 2019 from \$10.0 million for the corresponding period in 2018. The increase was primarily due to increased commissions and compensation and benefits related to increases in personnel. Salaries and benefits expense, as an annualized percentage of average total finance receivables, was 4.58% for the three-month period ended March 31, 2019 compared with 4.39% for the corresponding period in 2018. Total personnel increased to 352 at March 31, 2019 from 326 at March 31, 2018.

General and administrative expense. General and administrative expense increased \$6.8 million, or 103.0%, to \$13.4 million for the three months ended March 31, 2019 from \$6.6 million for the corresponding period in 2018. A major component of the increase is property tax expense that was previously netted against property tax income prior to the first quarter of 2019, but is presented on a gross basis in the three months ended March 31, 2019 as a result of the adoption of ASU 2016-02 and related ASUs. General and administrative expense as an annualized percentage of average total finance receivables was 5.34% for the three-month period ended March 31, 2019, compared to 2.88% for the three-month period ended March 31, 2018. Selected major components of general and administrative expense for the three-month period ended March 31, 2019 included \$6.2 million of property tax expense, \$1.1 million of premises and occupancy expense, \$0.3 million of audit and tax compliance expense, \$1.1 million of data processing expense, \$0.6 million of marketing expense, and \$0.4 million of insurance-related expenses. In comparison, selected major components of general and administrative expense for the three-month period ended March 31, 2018 included \$0.9 million of premises and occupancy expense, \$0.4 million of audit and tax compliance expense, \$0.9 million of data processing expense, \$0.6 million of marketing expense and \$0.4 million of insurance-related expenses.

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Provision for credit losses. The provision for credit losses was \$5.4 million for the three-month period ended March 31, 2019 compared to \$4.6 million for the three-month period ended March 31, 2018. Equipment Finance 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 Equipment Finance 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.

The provision for credit losses for the Working Capital Loans, Equipment Finance and CVG portfolios increased by \$0.4 million, \$0.1 million and \$0.3, respectively, for the three-month period ended March 31, 2019 as compared to the three-month period ended March 31, 2018.

Total portfolio net charge-offs were \$4.6 million for the three-month period ended March 31, 2019, compared to \$3.8 million for the corresponding period in 2018. The increase in charge-off rate is primarily due to the ongoing seasoning of the Equipment Finance portfolio as reflected in the mix of origination vintages and the mix of credit profiles. Total portfolio net charge-offs as an annualized percentage of average total finance receivables increased to 1.83% during the three-month period ended March 31, 2019, from 1.68% for the corresponding period in 2018. The allowance for credit losses increased to approximately \$16.9 million at March 31, 2019, an increase of \$0.8 million from \$16.1 million at December 31, 2018.

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

Provision for income taxes. Income tax expense of \$1.6 million and \$1.7 million was recorded for the three-month periods ended March 31, 2019 and March 31, 2018, respectively. Our effective tax rate, which is a combination of federal and state income tax rates, was approximately 23.8% and 21.4% for the three-month periods ended March 31, 2019 and March 31, 2018, respectively. The effective tax rate for 2018 reflected a state tax benefit from various state rate changes in the period.

FINANCE RECEIVABLES AND ASSET QUALITY

Our net investment in leases and loans increased \$22.5 million, or 2.2%, to \$1,023.2 million at March 31, 2019 from \$1,000.7 million at December 31, 2018. We continue to monitor our credit underwriting guidelines in response to current economic conditions, and we continue to develop our sales organization and origination strategies to increase originations.

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The chart which follows provides our asset quality statistics for each of the three-month periods ended March 31, 2019 and March 31, 2018, and the year ended December 31, 2018:

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	Three Months Ended		Year Ended
	March 31,		December 31,
	2019	2018	2018
	(Dollars in thousands)		
Allowance for credit losses, beginning of period	\$ 16,100	\$ 14,851	\$ 14,851
Provision for credit losses	5,363	4,612	19,522
Charge-offs:			
Commercial lease and loans:			
Working Capital Loans	(673)	(229)	(1,537)
CRA	—	—	—
Equipment Finance	(4,333)	(4,029)	(18,149)
CVG	(328)	(157)	(907)
Total Charge-offs	(5,334)	(4,415)	(20,593)
Recoveries			
Commercial lease and loans:			
Working Capital Loans	19	6	60
CRA	—	—	—
Equipment Finance	734	528	2,199
CVG	—	38	61
Total Recoveries	753	572	2,320
Net charge-offs	(4,581)	(3,843)	(18,273)
Allowance for credit losses, end of period ⁽¹⁾	<u>\$ 16,882</u>	<u>\$ 15,620</u>	<u>\$ 16,100</u>
Annualized net charge-offs to average total finance receivables ⁽²⁾	1.83%	1.68%	1.93%
Allowance for credit losses to total finance receivables, end of period ⁽²⁾	1.66%	1.68%	1.62%
Average total finance receivables ⁽²⁾	\$ 999,432	\$913,804	\$ 944,588
Total finance receivables, end of period ⁽²⁾	\$1,019,311	\$927,752	\$ 996,383
Delinquencies greater than 60 days past due	\$ 7,626	\$ 6,735	\$ 7,292
Delinquencies greater than 60 days past due ⁽³⁾	0.66%	0.64%	0.65%
Allowance for credit losses to delinquent accounts greater than 60 days past due ⁽³⁾	221.37%	231.92%	220.79%
Non-accrual leases and loans, end of period	\$ 4,674	\$ 3,653	\$ 4,353
Renegotiated leases and loans, end of period ⁽⁴⁾	\$ 3,363	\$ 4,366	\$ 3,636
Accruing leases and loans past due 90 days or more	\$ —	\$ —	\$ —
Interest income included on non-accrual leases and loans ⁽⁵⁾	\$ 73	\$ 47	\$ 410
Interest income excluded on non-accrual leases and loans ⁽⁶⁾	\$ 60	\$ 51	\$ 130

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- (1) Equipment Finance consists of Equipment Finance Agreements, Installment Purchase Agreements and other leases and loans.
- (2) 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 percentage of total minimum lease payments receivable for leases and as a percentage of principal outstanding for loans.
- (4) No renegotiated leases or loans met the definition of a Troubled Debt Restructuring at March 31, 2019, December 31, 2018, or March 31, 2018.
- (5) Represents interest which was recognized during the period on non-accrual loans and leases, prior to non-accrual status.
- (6) 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.

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 0.66% at March 31, 2019 and 0.65% at December 31, 2018, compared to 0.64% at March 31, 2018.

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" in our Form 10-K for the year ended December 31, 2018.)

The following tables provide information about delinquent and non-accrual leases and loans in the Company's portfolio for each of the three month periods ended March 31, 2019 and March 31, 2018, and the year ended December 31, 2018.

	Three Months Ended		Year Ended
	March 31,		December 31
	2019	2018	2018
	(Dollars in thousands)		
Non-accrual leases and loans:			
Commercial leases and loans:			
Working Capital Loans	\$ 284	\$ 27	\$ 492
CRA	—	—	—
Equipment Finance ⁽¹⁾	4,153	3,586	3,529
CVG	237	40	191
Total non-accrual leases and loans	<u>\$ 4,674</u>	<u>\$ 3,653</u>	<u>\$ 4,212</u>

- (1) Equipment Finance consists of Equipment Finance Agreements, Installment Purchase Agreements and other leases and 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 Equipment Finance leases or loans, including CVG loans, when a default on monthly payment exists for a period of 90 days or more. Income recognition resumes when the lease or loan becomes less than 90 days delinquent.

Working Capital Loans are generally placed in non-accrual status when they are 30 days past due. The loan is removed from non-accrual status once sufficient payments are made to bring the loan current and evidence of a sustained performance period as reviewed by management.

The allowance for credit losses as a percentage of total finance receivables increased to 1.66% at March 31, 2019 from 1.62% at December 31, 2018. The increase is primarily due to a modest increase in delinquency rates.

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Total portfolio net charge-offs for the three months ended March 31, 2019 were \$4.6 million (1.83% of average total finance receivables on an annualized basis), compared to \$5.6 million (2.30% of average total finance receivables on an annualized basis) for the three months ended December 31, 2018 and \$3.8 million (1.68% of average total finance receivables on an annualized basis) for the three months ended March 31, 2018. The Equipment Finance 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 Equipment Finance portfolio affects the timing and amount of charge-offs.

RESIDUAL PERFORMANCE

Our leases offer our end user customers the option to own the equipment at lease expiration. As of March 31, 2019, approximately 59% of our leases were one dollar purchase option leases, 40% were fair market value leases and 1% were fixed purchase option leases, the latter of which typically contain an end-of-term purchase option equal to 10% of the original equipment cost. As of March 31, 2019, there were \$28.2 million of residual assets retained on our Consolidated Balance Sheets, of which \$23.9 million, or 84.5%, were related to copiers. As of December 31, 2018, there were \$27.6 million of residual assets retained on our Consolidated Balance Sheets, of which \$23.6 million, or 85.4%, were related to copiers. No other group of equipment represented more than 10% of equipment residuals as of March 31, 2019 and December 31, 2018, respectively. Improvements in technology and other market changes, particularly in copiers, could adversely impact our ability to realize the recorded residual values of this equipment.

Fee income included approximately \$1.0 and \$0.9 million of net residual income for the three-month periods ended March 31, 2019 and March 31, 2018, 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 \$1.4 and \$1.2 million for the three-month periods ended March 31, 2019 and March 31, 2018, respectively.

The net loss on residual values disposed at end of term totaled approximately \$0.4 and \$0.3 million for the three-month periods ended March 31, 2019 and March 31, 2018, respectively. Management performs an impairment assessment, no less frequently than quarterly, using cash flows it expects to derive from the underlying asset at the end of the lease term. If impairment was required, the Company would record an allowance. There was no allowance recorded on estimated residual values during each of the three-month periods ended March 31, 2019 and March 31, 2018.

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 non-interest 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 five 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);
- financing of leases through term note securitizations; and
- sale of leases and loans through our capital markets capabilities

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Deposits issued by MBB represent our primary funding source for new originations, primarily through the issuance of FDIC insured deposits.

MBB also offers an 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.

We declared a dividend of \$0.14 per share on January 31, 2019. The quarterly dividend was paid on February 21, 2019 to shareholders of record on the close of business on February 11, 2019, which resulted in a dividend payment of approximately \$1.7 million. It represented the Company's thirtieth consecutive quarterly cash dividend.

On July 27, 2018, we completed a \$201.7 million asset-backed term securitization which provided us with fixed-cost borrowing with the objective of diversifying our funding resources. This was a private offering made pursuant to Rule 144A and Reg S under the Securities Act of 1933, as amended, by Marlin Receivables 2018-1 LLC, a wholly owned subsidiary of Marlin Leasing Corporation. Standard & Poor's Ratings Services, Inc. and Fitch Ratings Inc. rated the transaction, with the two senior classes receiving the agencies' highest ratings. As with all our prior term note securitizations, it is recorded in long-term borrowings in the Consolidated Balance Sheets.

At March 31, 2019, we had approximately \$25.0 million of available borrowing capacity from a federal funds line of credit with a correspondent bank in addition to available cash and cash equivalents of \$141.0 million. This amount excludes additional liquidity that may be provided by the issuance of insured deposits through MBB.

Our debt to equity ratio was 4.81 to 1 at March 31, 2019 and 4.56 to 1 at December 31, 2018.

Net cash used in investing activities was \$29.8 million for the three-month period ended March 31, 2019, compared to net cash used in investing activities of \$25.0 million for the three-month period ended March 31, 2018. The decrease in cash flows from investing activities is primarily due to an increase of \$31.9 million of funds used to originate leases and loans offset by \$21.6 million in proceeds from sales of leases and loans originated for investment and \$8.2 million in principal collections on leases and loans. Included in the funds used to originate leases and loans was \$4.1 million and \$3.8 million of deferred initial direct costs and fees for the three-month periods ended March 31, 2019 and 2018, respectively. Investing activities primarily relate to leasing activities. The Company transferred \$42.2 million and \$22.4 million of leases originated for investment to held for sale during the three-month period ended March 31, 2019 and 2018, respectively.

Net cash provided by financing activities was \$60.3 million for the three-month period ended March 31, 2019, compared to net cash provided by financing activities of \$21.1 million for the three-month period ended March 31, 2018. The increase in cash flows from financing activities is primarily due to a \$60.6 million increase in deposits offset by a \$21.1 million repayment on borrowings from our 2018 asset-backed term securitization. Financing activities also include transactions related to the Company's common stock, such as repurchasing common stock and paying dividends.

Additional liquidity is provided by our cash flow from operations. Net cash provided by operating activities was \$12.5 million for the three-month period ended March 31, 2019, compared to net cash provided by operating activities of \$21.7 million for the three-month period ended March 31, 2018. The decrease in cash flows from operating activities is primarily due to a net tax refund of \$8.1 million received in the first quarter of 2018.

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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 and loans. We primarily fund our originations and growth using FDIC-insured deposits issued through MBB. Total cash and cash equivalents available as of March 31, 2019 totaled \$141.0 million, compared to \$97.2 million at December 31, 2018.

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 March 31, 2019 and December 31, 2018 totaled \$11.2 million and \$9.7 million, respectively.

Restricted Interest-earning Deposits with Banks. As of March 31, 2019, we also had \$13.2 million of cash that was classified as restricted interest-earning deposits with banks. We had \$14.0 million restricted interest-earning deposits with banks at December 31, 2018. Restricted interest-earning deposits with banks consist primarily of various trust accounts related to our secured debt facilities. Therefore, these balances generally decline as the term securitization borrowings are repaid.

Borrowings. Our primary borrowing relationship requires the pledging of eligible lease and loan receivables to secure amounts advanced. Our secured borrowings amounted to \$130.1 million at March 31, 2019. We had no secured borrowings at December 31, 2018. Information pertaining to our borrowing facilities is as follows:

	For the Three Months Ended March 31, 2019				As of March 31, 2019		
	Maximum Facility Amount	Maximum Month End Amount Outstanding	Average Amount Outstanding	Weighted Average Rate ⁽³⁾	Amount Outstanding	Weighted Average Rate ⁽²⁾	Unused Capacity ⁽¹⁾
	(Dollars in thousands)						
Federal funds purchased	\$ 25,000	\$ —	\$ —	— %	\$ —	— %	\$ 25,000
Term note securitizations ⁽⁴⁾	—	143,912	140,500	3.91%	130,129	3.32%	—
	<u>\$ 25,000</u>		<u>\$ 140,500</u>	3.91%	<u>\$ 130,129</u>	3.32%	<u>\$ 25,000</u>

(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 March 31, 2019, MBB had \$33.2 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.

(3) Includes transaction costs.

(4) Our term note securitizations are one-time fundings that pay down over time without any ability for us to draw down additional amounts.

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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 \$33.2 million in unused, secured borrowing capacity at the Federal Reserve Discount Window, based on \$36.1 million of net investment in leases pledged at March 31, 2019.

Term Note Securitizations

On July 27, 2018 we completed a \$201.7 million asset-backed term securitization. This transaction was Marlin's eleventh term securitization and its first since 2010. It provides the company with fixed-cost borrowing with the objective of diversifying its funding sources. As with all prior securitizations, this transaction was recorded as an "on-balance sheet" transaction and the financing is recorded in long-term borrowings in the Consolidated Balance Sheets.

This was a private offering made to qualified institutional buyers pursuant to Rule 144A under and Regulation S under the Securities Act of 1933 by Marlin Receivables 2018-1 LLC, a wholly-owned subsidiary of Marlin Leasing Corporation. Standard & Poor's Ratings Service, Inc. and Fitch Ratings Inc. rated the transaction with the two senior classes receiving the agencies' highest ratings. The effective weighted average interest expense over the term of the financing is expected to be approximately 3.41%.

In connection with this securitization transaction, we have transferred leases to our bankruptcy remote special purpose wholly-owned subsidiary ("SPE") and issued term debt collateralized by such commercial leases to institutional investors in private securities offerings. These SPEs are considered variable interest entities ("VIEs") under U.S. GAAP. We are required to consolidate VIEs in which we are deemed to be the primary beneficiary through having (1) power over the significant activities of the entity and (2) an obligation to absorb losses or the right to receive benefits from the VIE which are potentially significant to the VIE. We continue to service the assets of our VIEs and retain equity and/or residual interests. Accordingly, assets and related debt of these VIEs are included in the accompanying Consolidated Balance Sheets. Our leases and restricted interest-earning deposits with banks are assigned as collateral for these borrowings and there is no further recourse to our general credit. Collateral in excess of these borrowings represents our maximum loss exposure. Our term note securitizations have fixed terms, fixed interest rates and fixed principal amounts. At March 31, 2019 outstanding term securitizations amounted to \$129.2 million and \$150.1 million at December 31, 2018.

As of March 31, 2019, \$147.3 million of minimum lease payments receivable and \$9.1 million of restricted interest-earning deposits are assigned as collateral for the term note securitization. The July 27, 2018, term note securitization is summarized below:

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	<u>Notes Originally Issued</u>	<u>Outstanding Balance as of March 31, 2019</u>	<u>Final Maturity Date</u>	<u>Original Coupon Rate</u>
(Dollars in thousands)				
2018 — 1				
Class A-1	\$ 77,400	\$ 5,879	July, 2019	2.55%
Class A-2	55,700	\$ 55,700	October, 2020	3.05
Class A-3	36,910	\$ 36,910	April, 2023	3.36
Class B	10,400	\$ 10,400	May, 2023	3.54
Class C	11,390	\$ 11,390	June, 2023	3.70
Class D	5,470	\$ 5,470	July, 2023	3.99
Class E	4,380	\$ 4,380	May, 2025	5.02
Total Term Note Securitizations	<u>\$ 201,650</u>	<u>\$ 130,129</u>		3.05% ⁽¹⁾⁽²⁾

(1) Represents the original weighted average initial coupon rate for all tranches of the securitization. In addition to this coupon interest, term note securitizations have other transaction costs which are amortized over the life of the borrowings as additional interest expense.

(2) The weighted average coupon rate of the 2018-1 term note securitization will approximate 3.41% over the term of the borrowing.

At March 31, 2019, the Company was in compliance with terms of the term note securitization agreement.

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. The Company and MBB operate under the Basel III capital adequacy standards adopted by the federal bank regulatory agencies 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

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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 capital standards require a minimum Tier 1 leverage ratio of 4%. The capital requirements also require a 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 may be 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 1.875% for 2018, and 2.5% for 2019 and thereafter. 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 March 31, 2019, 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 14.29%, 15.65%, 15.65% and 16.91%, respectively, which exceeds requirements for well-capitalized status of 5%, 6.5%, 8% and 10%, respectively. At March 31, 2019, 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 15.41%, 17.25%, 17.25% and 18.50%, 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 March 31, 2019 was \$143.4 million, which exceeds the regulatory threshold for “well capitalized” status.

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 March 31, 2019

The Company declared a dividend of \$0.14 per share on May 2, 2019. The quarterly dividend, which is expected to result in a dividend payment of approximately \$1.7 million, is scheduled to be paid on May 23, 2019 to shareholders of record on the close of business on May 13, 2019. It represents the Company’s thirty-first consecutive quarterly cash dividend. The payment of future dividends will be subject to approval by the Company’s Board of Directors.

Contractual Obligations

In addition to scheduled maturities on our deposits and credit facilities, we have future cash obligations under various types of contracts. We lease office space and office equipment under long-term operating leases. The contractual obligations under our certificates of deposits, credit facilities, term note securitizations, operating leases, agreements and commitments under non-cancelable contracts as of March 31, 2019 were as follows:

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<u>Period Ending December 31,</u>	<u>Contractual Obligations as of March 31, 2019</u>				
	<u>Certificates of Deposits⁽¹⁾</u>	<u>Borrowings</u>	<u>Contractual Interest Payments⁽²⁾</u>	<u>Operating Leases</u>	<u>Total</u>
	(Dollars in thousands)				
2019	\$ 343,259	\$ 52,719	\$ 13,469	\$ 722	\$410,169
2020	220,089	45,200	10,520	1,678	277,487
2021	149,510	23,629	5,181	1,453	179,773
2022	66,008	8,581	2,019	1,361	77,969
2023	28,803	—	890	1,271	30,964
Thereafter	11,998	—	55	11,290	23,343
Total	\$ 819,667	\$ 130,129	\$ 32,134	\$ 17,775	\$999,705

(1) Money market deposit accounts are not included. As of March 31, 2019, money market deposit accounts totaled \$23.0 million.

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

There were no off-balance sheet arrangements requiring disclosure at March 31, 2019.

MARKET INTEREST RATE RISK AND SENSITIVITY

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

We are exposed to market risks associated with changes in interest rates and our earnings may fluctuate with changes in interest rates. The lease and loan 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.

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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 first fiscal quarter of 2019 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 Form 10-K for the year ended December 31, 2018.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Information on Stock Repurchases

On May 30, 2017, the Company's Board of Directors approved a stock repurchase plan under which the Company is authorized to repurchase up to \$10 million in value of its outstanding shares of common stock. This authority may be exercised from time to time and in such amounts as market conditions warrant. Any shares purchased under this plan are returned to the status of authorized but unissued shares of common stock. The repurchases may be made on the open market or in block trades. The program may be suspended or discontinued at any time. The repurchases are funded using the Company's working capital. The following table sets forth information regarding the Company's repurchases of its common stock during the three months ended March 31, 2019.

Time Period	Number of Shares Purchased⁽²⁾	Average Price Paid Per Share⁽¹⁾	Maximum Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
January 1, 2019 to			
January 31, 2019	29,947	\$ 23.86	\$ 5,036,613
February 1, 2019 to			
February 28, 2019	0	\$ 0.00	\$ 5,036,613
March 1, 2019 to			
March 31, 2019	0	\$ 0.00	\$ 5,036,613
Total for the quarter ended			
March 31, 2019	29,947	\$ 23.86	\$ 5,036,613

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

(2) On May 30, 2017, the Company's Board of Directors approved a new stock repurchase plan to repurchase up to \$10 million in value of its outstanding shares of common stock.

In addition to the repurchases described above, pursuant to the 2014 Equity Compensation Plan, participants may have shares withheld to cover income taxes. There were 18,910 shares repurchased to cover income tax withholding in connection with the shares granted under the 2014 Equity Compensation Plan during the three-month period ended March 31, 2019, at an average cost of \$ 22.74 per share. At March 31, 2019, the Company had \$ 5.0 million remaining in the 2017 Repurchase Plan.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

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Item 5. Other Information

None

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Item 6. Exhibits

Exhibit Number	Description
3.1	<u>Amended and Restated Articles of Incorporation⁽¹⁾</u>
3.2	<u>Amended and Restated Bylaws of the Registrant⁽²⁾</u>
31.1	<u>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)</u>
31.2	<u>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)</u>
32.1	<u>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)</u>
101	Financial statements from the Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2019, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Unaudited Consolidated Financial Statements. (Submitted electronically with this report)

-
- (1) Previously filed with the SEC as an exhibit to the Registrant'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 Registrant's Current Report on Form 8-K filed on October 20, 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 (Principal Executive Officer)

By: /s/ Michael R. Bogansky Chief Financial Officer & Senior Vice
Michael R. Bogansky President
(Principal Financial Officer)

Date: May 3, 2019

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Section 2: EX-31.1 (EX-31.1)

Exhibit 31.1

**CERTIFICATION REQUIRED BY RULE 13a-14(a) OF
THE SECURITIES EXCHANGE ACT OF 1934**

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Jeff Hilzinger, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Marlin Business Services Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the periods in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the periods covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal

control over financial reporting.

Date: May 3, 2019

/s/ Jeff Hilzinger
Jeff Hilzinger
Chief Executive Officer
Principal Executive Officer

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Section 3: EX-31.2 (EX-31.2)

Exhibit 31.2

CERTIFICATION REQUIRED BY RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Michael R. Bogansky, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Marlin Business Services Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the periods in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the periods covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2019

/s/ Michael R. Bogansky
Michael R. Bogansky
Chief Financial Officer and Senior Vice President
Principal Financial Officer

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Section 4: EX-32.1 (EX-32.1)

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying Quarterly Report on Form 10-Q of Marlin Business Services Corp. for the quarter ended March 31, 2019 (the “Quarterly Report”), Jeff Hilzinger, as Chief Executive Officer, and Michael R. Bogansky, Chief Financial Officer of the Company, each hereby certifies, that pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) The Quarterly Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of Marlin Business Services Corp.

Date: May 3, 2019

/s/ Jeff Hilzinger

Jeff Hilzinger

Chief Executive Officer

(Principal Executive Officer)

/s/ Michael R. Bogansky

Michael R. Bogansky

Chief Financial Officer & Senior Vice President

(Principal Financial Officer)

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