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Marlin Business Services Corp. Reports Third Quarter 2006 Earnings

MOUNT LAUREL, N.J., Nov. 2 /PRNewswire-FirstCall/ -- Marlin Business Services Corp. (Nasdaq: MRLN) today reported net income of $4.7 million for the third quarter ended September 30, 2006, a 38% increase over $3.4 million for the same period in 2005. Diluted net earnings per share was $0.39 compared with $0.29 for the same period in 2005. Net income in the third quarter of 2005 was impacted by an after-tax charge of $756,000, or $0.06 diluted earnings per share, for expected losses related to Hurricane Katrina.

For the nine months ended September 30, 2006 net income was $14.8 million compared to $11.9 million for the same period in 2005. Diluted net earnings per share for the nine-month period ended September 30, 2006 was $1.22 compared to $0.99 per diluted share reported for the same period in 2005. Excluding the impact of adjustments related to Hurricane Katrina for both periods, net income for the nine-month period ended September 30, 2006 would have been $14.2 million compared to $12.6 million of net income for the nine- month period ended September 30, 2005. Diluted earnings per share, excluding the impact of Katrina-related adjustments, would have been $1.17 for the nine- month period ended September 30, 2006 compared to $1.06 per diluted share for the third quarter ended September 30, 2005.

"Along with reporting another solid quarter of results, we are excited to announce two new financial products targeting the small business market," said Daniel P. Dyer, Chairman and CEO of Marlin Business Services Corp. "The recent launch of Factoring and our Business Capital Loan Product are natural extensions to our core leasing business and Marlin's strategy of serving the financing needs of small business."

Highlights for the quarter ended September 30, 2006 include:

Asset Origination

- Based on initial equipment cost, lease production was $102.0 million in the third quarter of 2006 compared to $97.9 million in the second quarter of 2006 and $79.6 million in the third quarter of 2005. Net investment in leases was $656.8 million at September 30, 2006.

- Our end user customer base grew to more than 86,000 at September 30, 2006 compared with 85,000 at June 30, 2006 and 82,000 at September 30, 2005. The number of active leases in our portfolio was approximately 109,000 at September 30, 2006.

Net Interest and Fee Margin and Cost of Funds

- The interest income yield was 12.57% as a percentage of average net investment in leases for the quarter ended September 30, 2006, an increase of 3 basis points from the quarter ended June 30, 2006 and a decrease of 46 basis points from the third quarter of 2005.

- Fee income as a percentage of average net investment in leases was 3.35% for the quarter ended September 30, 2006 compared to 3.44% for the quarter ended June 30, 2006. Fee income was $5.2 million for the quarter ended September, 30, 2006 compared to $5.1 million for the quarter ended June 30, 2006. The increase in fee income is primarily attributed to higher late fee realization partially offset by lower net residual income on disposed equipment in the current quarter compared to the second quarter of 2006. Residual income from disposed equipment was a net gain of $68,000 in the third quarter ended September 30, 2006 compared to a net gain of $246,000 in the second quarter ended June 30, 2006.

- The average cost of funds as a percentage of net investment in leases was 4.41% for the quarter ended September 30, 2006. This was a 35 basis point increase from the 4.06% for the quarter ended June 30, 2006. The increase in the average cost of funds was attributed to the assumption of higher debt balances to fund originations as a result of completing a new term securitization transaction, and an increase in the variable rate for warehouse borrowings for the quarter ended September 30, 2006. In addition, the Company increased its available financing through a pre-funding feature in the recent term securitization transaction. The pre-funding proceeds of $122 million will be used to finance new lease production into the fourth quarter of 2006. The pre-funding amount increased cost of funds as a percentage of net investment in leases by approximately 10 basis points in the current quarter.

- Due to the factors discussed above, the net interest and fee margin was 11.51% as a percentage of average net investment in leases for the quarter ended September 30, 2006, a decrease of 41 basis points compared to 11.92% for the quarter ended June 30, 2006.

- The average implicit yield on new business was 12.73% for the quarter ended September 30, 2006 compared to 12.68% for the quarter ended June 30, 2006 and 12.61% in the third quarter of 2005.

Credit Quality

- Net charge-offs totaled $2.7 million for the quarter ended September 30, 2006, compared with $2.1 million for the second quarter of 2006.

- On an annualized basis, net charge-offs were 1.72% of average net investment in leases during the third quarter of 2006 compared to 1.44% for the second quarter of 2006 and 1.74% for the full year ended December 31, 2005.

- As of September 30, 2006, 0.58% of our total lease portfolio was 60 or more days delinquent, compared to 0.54% as of June 30, 2006 and 0.61% as of December 31, 2005. Allowance for credit losses was $7.8 million as of September 30, 2006, compared to $7.4 million as of June 30, 2006.

- Allowance for credit losses as a percentage of net investment in leases was 1.21% at both September 30, 2006 and June 30, 2006.

- At September 30, 2006, the allowance for credit losses was 176.1% of leases 60 or more days delinquent compared to 190.6% at June 30, 2006 and 192.30% at December 31, 2005.

- In conjunction with this release, static pool loss statistics have been updated as supplemental information on the investor relations section of our website at http://www.marlincorp.com.

Operating Expenses

- Salaries and benefits expense was $5.2 million in the third quarter of 2006 compared to $5.3 million in the second quarter. Salaries and benefits expense was 3.31% as an annualized percentage of average net investment in leases for the third quarter of 2006 compared to 3.55% in the quarter ended June 30, 2006 and 3.40% in the third quarter of 2005. In the third quarter of 2006, the Company incurred approximately $144,000 of salaries and benefits expense associated with Marlin Business Bank (in organization) compared to approximately $60,000 for the third quarter ended September 30, 2005. In addition, option-related compensation expense totaled $240,000 in the third quarter due to the adoption of SFAS 123(R).

- Other general and administrative expenses were $2.9 million for the third quarter of 2006, a decrease of $211,000 from $3.1 million for the second quarter of 2006. Other general and administrative expenses as an annualized percentage of average net investment in leases was 1.84% for the third quarter of 2006 compared to 2.08% for the second quarter of 2006 and 2.27% in the third quarter of 2005.

Funding and Liquidity

- On September 21, 2006 we completed our eighth term asset-backed securitization transaction at a weighted average fixed borrowing cost of 5.51% over the term of the transaction. The securitization amounted to $380.2 million, and the note classes were rated P-1/A-1+, Aaa/AAA, A2/A, Baa2/BBB by Moody's Investors Service, Inc. and Standard & Poor's Ratings Service. Proceeds from the transaction were used to repay the Company's revolving warehouse credit facilities and provide additional liquidity for future lease production. As a result of hedging activity and other transaction costs, we expect total interest expense on the 2006 term transaction to approximate an average of 5.21% over the term of the borrowing.

- On September 15, 2006, the Company paid off its 2003-1 term securitization when the remaining note balances outstanding were approximately $31.5 million at a coupon rate of approximately 3.19%.

- On September 28, 2006, the Company extended its $125 million warehouse facility to September 27, 2007.

- During the third quarter ended September 30, 2006 the Company entered into a series of forward starting interest rate swap agreements with total underlying notional amounts of (i) $200.0 million at a blended strike rate of approximately 5.25% to commence in October 2007, related to its forecasted 2007 term note securitization and (ii) $100 million at a blended strike rate of approximately 5.34% to commence in October 2008, related to its forecasted 2008 term note securitization.

- Capital increased an additional $310,000 through the exercise of employee stock options and the related tax benefits during the third quarter of 2006.

- The Company's debt to equity ratio was 5.50:1 at September 30, 2006 compared to 4.17:1 at June 30, 2006. The increase in this ratio is primarily attributed to the additional borrowings associated with the $122 million pre-funding feature of our 2006 term securitization. Our debt to equity ratio was a similar 5.42:1 at September 30, 2005 following our 2005 securitization.

Conference Call and Webcast

We will host a conference call on Friday, November 3, 2006 at 9:00 a.m. EST to discuss our third quarter 2006 results. If you wish to participate, please call (800) 903-0258 approximately 10 minutes in advance of the call time. The conference ID will be: "7Marlin." The call will also be Webcast on the Investor Relations page of the Marlin Business Services Corp. website, http://www.marlincorp.com. An audio replay will also be available on the Investor Relations section of Marlin's website for approximately 90 days.

About Marlin Business Services Corp.

Marlin Business Services Corp. is a nationwide provider of equipment leasing solutions primarily to small businesses. The Company's principal operating subsidiary, Marlin Leasing Corporation, finances over 60 equipment categories in a segment of the market generally referred to as "small-ticket" leasing (i.e. leasing transactions less than $250,000). The Company was founded in 1997 and completed its initial public offering of common stock on November 12, 2003. In addition to its executive offices in Mount Laurel, NJ, Marlin has regional offices in or near Atlanta, Chicago, Denver, Philadelphia and Salt Lake City. For more information, visit http://www.marlincorp.com or call toll-free at (888) 479-9111.

Forward-Looking Statements

This release contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All forward-looking statements (including statements regarding future financial and operating results) involve risks, uncertainties and contingencies, many of which are beyond our control, which may cause actual results, performance, or achievements to differ materially from anticipated results, performance, or achievements. All statements contained in this release that are not clearly historical in nature are forward-looking, and the words "anticipate," "believe," "expect," "estimate," "plan," "may," "intend," and similar expressions are generally intended to identify forward- looking statements. Economic, business, funding, market, competitive, legal and/or regulatory factors, among others, affecting our business are examples of factors that could cause actual results to differ materially from those described in the forward-looking statements. More detailed information about these factors is contained in our filings with the SEC, including the sections captioned "Risk Factors" and "Business" in the Company's Form 10-K/A filed with the Securities and Exchange Commission. We are under no obligation to (and expressly disclaim any such obligation to) update or alter our forward- looking statements, whether as a result of new information, future events or otherwise.

MARLIN BUSINESS SERVICES CORP.
AND SUBSIDIARIES
Consolidated Balance Sheets
(Dollars in thousands, except per-share data)

	September 30, 2006 (Unaudited)	December 31, 2005
Assets		
Cash and cash equivalents	$34,159	$34,472
Restricted cash	179,964	47,786
Net investment in direct financing leases	656,842	572,581
Property and equipment, net	3,573	3,776
Property tax receivables	721	191
Fair value of cash flow hedge derivatives	690	3,383
Other assets	10,970	8,800
Total assets	$886,919	$670,989
Liabilities and Stockholders' Equity		
Revolving and term secured borrowings	$712,355	$516,849
Other liabilities:		
Fair value of cash flow hedge derivatives	1,801	-
Sales and property taxes payable	10,069	7,702
Accounts payable and accrued expenses	9,364	8,467
Deferred income tax liability	23,729	25,362
Total liabilities	757,318	558,380
Commitments and Contingencies		
Stockholders' equity:		

Common Stock, $0.01 par value; 75,000,000 shares authorized; 12,009,489 and 11,755,225 shares issued and outstanding, respectively	120	117
Preferred Stock, $0.01 par value; 5,000,000 shares authorized; none issued	-	-
Additional paid-in capital	80,567	77,186
Stock subscription receivable	(19)	(25)
Cumulative other comprehensive income	2,370	3,520
Retained earnings	46,563	31,811
Total stockholders' equity	129,601	112,609
Total liabilities and stockholders' equity	$886,919	$670,989

MARLIN BUSINESS SERVICES CORP.
AND SUBSIDIARIES
Consolidated Statements of Operations
(Dollars in thousands, except per-share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Income:				
Interest income	$19,629	$17,490	$55,996	$49,593
Fee income	5,241	4,225	15,245	13,258
Interest and fee income	24,870	21,715	71,241	62,851
Interest expense	6,888	5,618	18,389	14,902
Net interest and fee income	17,982	16,097	52,852	47,949
Provision for credit losses	3,082	3,510	7,096	8,460
Net interest and fee income after provision for credit losses	14,900	12,587	45,756	39,489
Insurance and other income	1,365	1,162	3,949	3,551
Operating income	16,265	13,749	49,705	43,040
Non-interest expense:				
Salaries and benefits	5,171	4,567	15,570	13,391

General and administrative	2,868	3,049	8,692	8,846
Financing related costs	408	390	1,060	1,173
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Non-interest expense	8,447	8,006	25,322	23,410
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Income before income taxes	7,818	5,743	24,383	19,630
Income taxes	3,088	2,299	9,631	7,753
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Net income	$4,730	$3,444	$14,752	$11,877
	======	======	=======	=======
Basic earnings per share	$0.40	$0.30	$1.25	$1.03
Diluted earnings per share	$0.39	$0.29	$1.22	$0.99
Shares used in computing basic earnings per share	11,838,677	11,608,450	11,775,028	11,524,164
Shares used in computing diluted earnings per share	12,154,889	12,048,274	12,114,655	11,953,274

SUPPLEMENTAL QUARTERLY DATA
(dollars in thousands, except share amounts)
(unaudited)

Quarter Ended:	9/30/2005	12/31/2005	3/31/2006
New Asset Production:			
# of Sales Reps	113	103	101
# of Leases	8,142	7,566	7,734
Equipment Volume	$79,632	$76,472	$82,049
Average monthly sources	1,306	1,202	1,219
Implicit Yield on New Business	12.61%	12.87%	12.84%
Net interest and fee margin			
Interest Income Yield	13.03%	12.96%	12.54%
Fee Income Yield	3.15%	3.39%	3.45%
Interest and Fee Income Yield	16.18%	16.35%	15.99%
Cost of Funds	4.19%	4.28%	3.87%
Net interest and Fee Margin	11.99%	12.07%	12.12%
Average Net Investment in Leases	$536,874	$554,705	$568,248

Portfolio Asset Quality:			
60+ Days Past Due Delinquencies	0.72%	0.61%	0.49%
60+ Days Past Due Delinquencies	$4,656	$4,063	$3,320
Net Charge-offs	$1,965	$2,513	$2,324
% on Average Net Investment in Leases Annualized	1.46%	1.81%	1.64%
Allowance for Credit Losses	$7,900	$7,813	$7,904
% of 60+ Delinquencies	169.70%	192.30%	238.10%
90+ Day Delinquencies (Non-earning)	$2,039	$2,017	$1,544
Balance Sheet:			
Assets			
Investment in Direct Financing Leases	$547,868	$562,039	$577,219
Initial Direct Costs and Fees	17,902	18,355	19,329
Reserve for Credit Losses	(7,900)	(7,813)	(7,904)
Net Investment in Leases	$557,870	$572,581	$588,644
Cash and Cash Equivalents	51,656	34,472	4,929
Restricted Cash	108,295	47,786	52,987
Other Assets	15,112	16,150	23,735
Total Assets	$732,933	$670,989	$670,295
Liabilities			
Total Debt	$582,611	$516,849	$504,459
Other Liabilities	42,851	41,531	46,645
Total Liabilities	$625,462	$558,380	$551,104
Stockholders' Equity			
Common Stock	$117	$117	$118
Paid-in Capital, net	76,528	77,161	78,308
Other Comprehensive Income	3,386	3,520	4,220
Retained Earnings	27,440	31,811	36,545
Total Stockholders' Equity	$107,471	$112,609	$119,191
Total Liabilities and Stockholders' Equity	$732,933	$670,989	$670,295
Capital and Leverage:			
Tangible Equity	$107,471	$112,609	$119,191
Debt to Tangible Equity	5.42	4.59	4.23
Expense Ratios:			

Salaries and Benefits Expense	$4,567	$4,781	$5,145
Salaries and Benefits Expense annualized % of Avg. Net Invest.	3.40%	3.45%	3.62%
Total personnel end of quarter	308	296	301
General and Administrative Expense	$3,049	$3,062	$2,746
General and Administrative Expense annualized % of Avg. Net Invest.	2.27%	2.21%	1.93%
Efficiency Ratio	44.13%	43.87%	42.46%
Net Income:			
Net Income	$3,444	$4,370	$4,734
Annualized Performance Measures:			
Return on Average Assets	2.06%	2.49%	2.82%
Return on Average Stockholders' Equity	13.20%	15.89%	16.34%
Per Share Data:			
Number of Shares - Basic	11,608,450	11,646,864	11,702,161
EPS- Basic	$0.30	$0.38	$0.40
Number of Shares - Diluted	12,048,274	12,075,882	12,042,436
EPS- Diluted	$0.29	$0.36	$0.39

Quarter Ended:	6/30/2006	9/30/2006
New Asset Production:		
# of Sales Reps	103	100
# of Leases	8,553	8,882
Equipment Volume	$97,871	$101,962
Average monthly sources	1,333	1,321
Implicit Yield on New Business	12.68%	12.73%
Net interest and fee margin		
Interest Income Yield	12.54%	12.57%
Fee Income Yield	3.44%	3.35%
Interest and Fee Income Yield	15.98%	15.92%

Cost of Funds	4.06%	4.41%
Net interest and Fee Margin	11.92%	11.51%
Average Net Investment in Leases	$591,905	$624,711
Portfolio Asset Quality:		
60+ Days Past Due Delinquencies	0.54%	0.58%
60+ Days Past Due Delinquencies	$3,867	$4,411
Net Charge-offs	$2,132	$2,685
% on Average Net Investment in Leases Annualized	1.44%	1.72%
Allowance for Credit Losses	$7,370	$7,767
% of 60+ Delinquencies	190.59%	176.08%
90+ Day Delinquencies (Non-earning)	$1,648	$1,876
Balance Sheet:		
Assets		
Investment in Direct Financing Leases	$609,359	$642,113
Initial Direct Costs and Fees	20,826	22,496
Reserve for Credit Losses	(7,370)	(7,767)
Net Investment in Leases	$622,815	$656,842
Cash and Cash Equivalents	3,168	34,159
Restricted Cash	54,457	179,964
Other Assets	17,667	15,954
Total Assets	$698,107	$886,919
Liabilities		
Total Debt	$526,286	$712,355
Other Liabilities	45,580	44,963
Total Liabilities	$571,866	$757,318
Stockholders' Equity		
Common Stock	$120	$120
Paid-in Capital, net	79,583	80,548
Other Comprehensive Income	4,705	2,370
Retained Earnings	41,833	46,563
Total Stockholders' Equity	$126,241	$129,601
Total Liabilities and Stockholders' Equity	$698,107	$886,919
Capital and Leverage:		

Tangible Equity	$126,241	$129,601
Debt to Tangible Equity	4.17	5.50
Expense Ratios:		
Salaries and Benefits Expense	$5,254	$5,171
Salaries and Benefits Expense annualized % of Avg. Net Invest.	3.55%	3.31%
Total personnel end of quarter	319	310
General and Administrative Expense	$3,078	$2,868
General and Administrative Expense annualized % of Avg. Net Invest.	2.08%	1.84%
Efficiency Ratio	44.16%	41.55%
Net Income:		
Net Income	$5,288	$4,730
Annualized Performance Measures:		
Return on Average Assets	3.09%	2.55%
Return on Average Stockholders' Equity	17.24%	14.79%
Per Share Data:		
Number of Shares - Basic	11,780,018	11,838,677
EPS- Basic	$0.45	$0.40
Number of Shares - Diluted	12,092,752	12,154,889
EPS- Diluted	$0.44	$0.39

SOURCE Marlin Business Services Corp.

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