

MICROFINANCIAL INC  
Form DEF 14A  
April 16, 2009

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**SCHEDULE 14A INFORMATION  
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES  
EXCHANGE ACT OF 1934 (AMENDMENT NO. )**

FILED BY THE REGISTRANT

FILED BY A PARTY OTHER THAN THE REGISTRANT

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to sec.240.14a-11(c) or sec.240.14a-12

**MICROFINANCIAL INCORPORATED**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement)

**PAYMENT OF FILING FEE (CHECK THE APPROPRIATE BOX):**

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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10M Commerce Way  
Woburn, Massachusetts 01801

April 16, 2009

Dear Stockholder:

I am pleased to invite you to the 2009 Special Meeting of Stockholders in Lieu of Annual Meeting of MicroFinancial Incorporated ( MicroFinancial ), which will be held on Thursday, May 14, 2009, at 4:00 p.m., at the offices of Edwards Angell Palmer & Dodge LLP, 111 Huntington Avenue, Boston, Massachusetts.

The accompanying Notice of Special Meeting of Stockholders and proxy statement describe the matters to be considered and acted upon. Please read these materials carefully.

Matters scheduled for consideration at the Special Meeting are the election of two directors for three-year terms and the ratification of the selection of independent auditors for 2009.

I hope you will be able to attend the meeting, but if you cannot do so, it is important that your shares be represented and voted. **ACCORDINGLY, I URGE YOU TO MARK, SIGN, DATE AND RETURN THE ENCLOSED PROXY PROMPTLY IN THE RETURN ENVELOPE PROVIDED.**

Very truly yours,

PETER R. BLEYLEBEN  
*Non-Executive Chairman*

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**MicroFinancial Incorporated  
10M Commerce Way  
Woburn, Massachusetts 01801**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS  
IN LIEU OF ANNUAL MEETING**

**To Be Held May 14, 2009**

The Special Meeting of Stockholders in Lieu of Annual Meeting of MicroFinancial Incorporated, a Massachusetts corporation ( MicroFinancial ), will be held Thursday, May 14, 2009, at 4:00 p.m., at the offices of Edwards Angell Palmer & Dodge LLP, 111 Huntington Avenue, Boston, Massachusetts for the purpose of considering and voting upon:

1. The election of the two directors named in MicroFinancial s proxy statement for three-year terms.
2. The ratification of the selection of Vitale, Caturano & Company, P.C. as independent auditors for MicroFinancial for 2009.
3. The transaction of such other business as may properly come before the Special Meeting.

The record date for determining stockholders entitled to notice of, and to vote at, the Special Meeting is the close of business on April 6, 2009. MicroFinancial s transfer books will not be closed.

By Order of the Board of Directors,

RICHARD F. LATOUR  
*Clerk*

Woburn, Massachusetts  
April 16, 2009

**YOUR VOTE IS IMPORTANT. PLEASE COMPLETE, DATE, SIGN AND MAIL THE ENCLOSED PROXY AT YOUR EARLIEST CONVENIENCE, USING THE RETURN ENVELOPE ENCLOSED WITH THE PROXY. IF YOU ATTEND THE SPECIAL MEETING, YOU MAY VOTE IN PERSON IF YOU WISH, EVEN IF YOU HAVE PREVIOUSLY RETURNED YOUR PROXY.**

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**Notice of Internet Availability of Proxy Materials:**  
**The Notice of Meeting, proxy statement and annual report to shareholders**  
**are available at [www.microfinancial.com/proxyinfo/](http://www.microfinancial.com/proxyinfo/)**

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**MicroFinancial Incorporated  
10M Commerce Way  
Woburn, Massachusetts 01801  
Telephone 781-994-4800**

**2009 SPECIAL MEETING OF STOCKHOLDERS  
IN LIEU OF ANNUAL MEETING**

**PROXY STATEMENT**

**GENERAL**

The enclosed proxy is solicited by the Board of Directors ( MicroFinancial Board ) of MicroFinancial Incorporated ( MicroFinancial or the Corporation ) in connection with the Special Meeting of Stockholders in Lieu of Annual Meeting (the Special Meeting ) to be held on May 14, 2009. This proxy statement and the enclosed proxy are first being sent to stockholders on or about April 16, 2009. The proxy will be voted at the Special Meeting in accordance with the instructions indicated on the proxy by the stockholder. If no instructions are indicated, all shares represented by valid proxies received pursuant to this solicitation (and not revoked before they are voted) will be voted:

FOR the election of the two director nominees named in this proxy statement;

FOR the ratification of the selection of Vitale, Caturano & Company, P.C. as our independent registered public accounting firm for fiscal year 2009; and

In accordance with the judgment of the proxy holders as to any other matters that may be properly brought before the meeting or any adjournments or postponements of the meeting.

The record date for determining stockholders entitled to vote at the Special Meeting is the close of business on April 6, 2009. On this date, there were outstanding and entitled to vote 14,141,192 shares of Common Stock, par value \$0.01 per share, of the Corporation (the Common Stock ), each of which is entitled to one vote on each matter to be voted on at the Special Meeting. The presence (in person or by proxy) of a majority of the aggregate number of shares of Common Stock outstanding and entitled to vote on the record date is necessary to constitute a quorum at the Special Meeting. Abstentions and broker non-votes will be counted as present at the Special Meeting for purposes of determining whether there is a quorum. A broker non-vote occurs when a broker or other nominee, holding shares for a beneficial owner, has not received voting instructions on a matter from such owner and is barred by stock exchange rules from exercising discretionary authority to vote on the matter.

**VOTING PROCEDURES**

A plurality of votes of the shares of Common Stock represented at the Special Meeting is required to elect directors. In voting for the election of directors, stockholders may cast their votes in favor of a nominee or may withhold authority to vote, but votes against may not be specified. The affirmative vote of a majority of the votes cast at the Special Meeting is required to ratify the selection of auditors. If a broker's authority to vote on a particular matter is limited, thus resulting in a broker non-vote, such broker non-vote will not be counted in determining the number of votes cast at the Special Meeting, and will have no effect on either proposal. Abstentions are counted for this purpose and so will have the same effect as a vote against the ratification of the selection of our auditors, but will not affect the election of our directors.

A stockholder of record may revoke a proxy by delivering written notice of revocation to Richard F. Latour, Clerk of MicroFinancial, at the address set forth above, by filing a duly executed proxy bearing a later date, or by attending the Special Meeting in person, notifying the Clerk, and voting by ballot at the Special Meeting. Any stockholder of record attending the Special Meeting may vote in person whether or not a proxy has been previously given, but the mere presence (without notifying the Clerk) of a stockholder at the Special Meeting will not constitute revocation of a previously given proxy. In addition, stockholders whose shares of Common Stock are not registered in their own name will need additional documentation from the record holder of the shares to vote in person at the Special Meeting.

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The following table sets forth information as of February 28, 2009 with respect to the beneficial ownership of Common Stock of each person known by the Corporation to be the beneficial owner of more than 5% of the 14,139,942 shares of Common Stock outstanding as of such date, each director and executive officer of the Corporation and all directors and executive officers of the Corporation as a group.

Name and Address of Beneficial Owner(1)	Number of Shares Beneficially Owned(2)	Percentage of Outstanding Common Stock
<b>Directors and Executive Officers</b>		
Torrence C. Harder(3)	1,780,618	12.5%
Peter R. Bleyleben(4)	1,506,789	10.6%
Brian E. Boyle(5)	1,539,625	10.8%
Richard F. Latour(6)	780,607	5.4%
Alan J. Zakon(7)	280,521	2.0%
Fritz von Mering	82,387	*
John W. Everets	53,797	*
James R. Jackson, Jr.	96,251	*
Steven J. LaCreta	9,852	*
Stephen Constantino	19,947	*
Thomas Herlihy	10,572	*
All directors and executive officers as a group (11 persons)	6,160,966	41.2%
<b>Others</b>		
Austin W. Marxe(8)	1,840,223	13.0%
David M. Greenhouse(8) c/o AWM Investment Company, Inc. 527 Madison Avenue, Suite 2600 New York, New York 10022		
SKIRITAI Capital LLC(9) 388 Market Street, Suite 700 San Francisco, CA 94111	1,047,708	7.4%

\* Less than 1%

- (1) Unless otherwise indicated, the business address of each officer and director of the Corporation is 10-M Commerce Way, Woburn, Massachusetts 01801.
- (2) Unless otherwise indicated in the footnotes, each of the stockholders named in this table has sole voting and investment power with respect to the shares of Common Stock shown as beneficially owned by such stockholder, except to the extent that authority is shared by spouses under applicable law.
- (3)



Includes 145,000 shares of Common Stock issuable upon the exercise of options issued to Mr. Harder which vest on or before April 29, 2009; 92,200 shares of Common Stock held in trust for Mr. Harder's daughter, Lauren E. Harder, over which Mr. Harder retains sole voting and investment power as the sole trustee and for which Mr. Harder disclaims beneficial ownership; 92,200 shares of Common Stock held in trust for Mr. Harder's daughter, Ashley J. Harder, over which Mr. Harder maintains voting and investment power as the sole trustee and for which Mr. Harder disclaims beneficial ownership; and 276,045 shares of Common Stock owned by Entrepreneurial Ventures, Inc. over which Mr. Harder retains shared voting and investment power through his ownership in, and positions as President and Director of, Entrepreneurial Ventures, Inc.

- (4) Includes 100,000 shares of Common Stock issuable upon the exercise of options issued to Dr. Bleyleben, which vest on or before April 29, 2009.
- (5) Includes 145,000 shares of Common Stock issuable upon the exercise of options issued to Dr. Boyle, which vest on or before April 29, 2009.

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- (6) Includes 290,000 shares of Common Stock issuable upon the exercise of options granted to Mr. Latour, which vest on or before April 29, 2009.
- (7) Includes 145,000 shares of Common Stock issuable upon the exercise of options granted to Dr. Zakon, which vest on or before April 29, 2009.
- (8) The number of shares and the following information is based upon information set forth in the amended Schedule 13G filed with the SEC on December 10, 2008 by Austin W. Marxe ( Marxe ) and David M. Greenhouse ( Greenhouse ), who are the controlling principals of AWM Investment Company, Inc. ( AWM ), the general partner of and investment adviser to Special Situations Cayman Fund, L.P. ( Cayman ). AWM also serves as the general partner of MGP Advisers Limited Partnership ( MGP ), the general partner of and investment adviser to Special Situations Fund III, L.P. ( SSF3 ) and the general partner of Special Situations Fund III QP, LP ( SSFQP ). AWM serves as the investment adviser to SSFQP. Of the 1,840,223 shares reported in the Schedule 13G amendment as being beneficially owned by Marxe and Greenhouse, 339,995 shares are owned by Cayman, 29,809 shares are owned by SSF3 and 1,470,419 shares are owned by SSFQP. Marxe and Greenhouse have shared power to vote and the shared power to dispose of all 1,840,223 shares.
- (9) The number of shares is as of December 26, 2008 and is contained in the Schedule 13G/A filed by SKIRITAI Capital LLC ( Skiritai ) with the Securities and Exchange Commission on December 29, 2008. According to such filing, Skiritai is the general partner of the Leonidas Opportunity Fund L.P. and the investment manager of the Leonidas Opportunity Offshore Fund Ltd, and the managing directors of Skiritai are Russell R. Silvestri and Lyron L. Bentovim.

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 (as amended, the Exchange Act ) requires the Corporation s directors and officers and persons who beneficially own more than ten percent (10%) of the Common Shares (each, a Reporting Person ) to file reports of ownership and changes of ownership with the Securities and Exchange Commission. Copies of all filed reports are required to be furnished to the Corporation pursuant to Section 16(a) of the Exchange Act. Other than as described below, and based solely upon a review of Forms 3 and 4 and amendments thereto furnished to the Corporation pursuant to Rule 16a-3(e) of the Exchange Act during fiscal year ended December 31, 2008 and on written representations from Reporting Persons, the Corporation believes that each Reporting Person complied with all applicable filing requirements during its fiscal year ended December 31, 2008, except that Austin Marxe and David Greenhouse, the controlling principals of AWM Investment Company, Inc., appear to have filed a Form 3 late with respect to one or more transactions executed on November 20, 2008.

**GOVERNANCE OF THE CORPORATION**

**Members of the Board of Directors and their Committee Assignments**

The members of the Board of Directors on the date of this proxy statement, and the committees of the Board on which they serve, are identified below:

<b>Director</b>	<b>Audit Committee</b>	<b>Nominating and Corporate</b>	<b>Compensation and</b>	<b>Credit Policy Committee</b>	<b>Strategic Planning Committee</b>
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	<b>Governance Committee</b>		<b>Benefits Committee</b>		
Peter R. Bleyleben				*	
Brian E. Boyle	*	**	*	*	*
John W. Everets					**
Torrence C. Harder	*			**	*
Richard Latour					
Fritz von Mering	**	*	*		
Alan Zakon		*	**		*

\* Member

\*\* Chairperson

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**Description of the Roles of the Committees**

The Board of Directors has standing Audit, Nominating and Corporate Governance, Compensation and Benefits, Credit Policy and Strategic Planning Committees.

*Audit Committee.* The Audit Committee is appointed by the Board of Directors to assist the Board in monitoring (1) the integrity of the financial statements of the Corporation, (2) compliance by the Corporation with legal and regulatory requirements, (3) the independent registered public accounting firm's qualifications and independence, (4) performance of the Corporation's independent auditors, and (5) the business practices and ethical standards of the Corporation. The Audit Committee is also directly responsible for the appointment, compensation, retention and oversight of the work of the Corporation's independent registered public accounting firm, and the preparation of the audit committee report included in this proxy statement.

MicroFinancial is required by the rules of the SEC and the Nasdaq Stock Market to satisfy certain requirements with respect to its Audit Committee. In conformity with those requirements, the MicroFinancial Board has approved the Audit Committee's written charter which may be found on the Corporation's web site at [www.microfinancial.com](http://www.microfinancial.com).

All of the members of the Audit Committee are independent and financially literate within the meaning of SEC regulations, the listing standards of the Nasdaq Stock Market and the Corporation's *Corporate Governance Guidelines*. The Board has determined that Mr. von Mering is qualified as an audit committee financial expert within the meaning of SEC regulations and that he meets the financial sophistication standards of the Nasdaq Stock Market.

The Audit Committee met seven times during fiscal 2008.

*Nominating and Corporate Governance Committee.* The Nominating and Corporate Governance Committee is appointed by the Board of Directors to assist the Board in identifying qualified individuals to become directors, recommend to the Board qualified director nominees for election at the stockholders' annual meeting, determine membership on the Board committees, recommend a set of Corporate Governance Guidelines, oversee annual self-evaluations by the Board and evaluate itself annually, and report annually to the Board on the Chief Executive Officer succession plan. The written charter of the Nominating and Corporate Governance Committee may be found on the Corporation's web site at [www.microfinancial.com](http://www.microfinancial.com).

All of the members of the Nominating and Corporate Governance Committee are independent within the meaning of the listing standards of the Nasdaq Stock Market and the Corporation's *Corporate Governance Guidelines*.

The Nominating and Corporate Governance Committee met three times during fiscal 2008.

*Compensation and Benefits Committee.* The Compensation and Benefits Committee is appointed by the Board of Directors to discharge the Board's responsibilities relating to compensation of the Corporation's directors and officers. The committee has overall responsibility for approving and evaluating the director and officer compensation plans, policies and programs of the Corporation. The committee is also responsible for reviewing and recommending to the Board of Directors the Compensation Discussion and Analysis that is included in this proxy statement. The written charter of the Compensation and Benefits Committee may be found on the Corporation's web site at [www.microfinancial.com](http://www.microfinancial.com).

The committee has the sole authority to retain and terminate any legal counsel or compensation or other consultant to be used to assist in the evaluation of director or executive compensation and also has the sole authority to approve the

consultant's fees or other retention terms. As provided for in the committee's charter, the committee may form and delegate authority to subcommittees when it determines that such action is appropriate under the circumstances. The committee did not delegate any of its authority during 2008.

It also has the authority, subject to ratification of the full Board, to adopt or amend certain equity compensation plans that are to be submitted to shareholders for approval, and any approval, amendment or termination of severance or change in control arrangements involving our directors or officers.

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All of the members of the Compensation and Benefits Committee are independent within the meaning of the listing standards of the Nasdaq Stock Market and the Corporation's *Corporate Governance Guidelines*.

The Compensation and Benefits Committee met six times during fiscal 2008.

*Credit Policy Committee.* The Credit Policy Committee is appointed by the Board to discharge the Board's responsibilities relating to oversight of the Corporation's credit policies. The Committee has responsibility for approving and evaluating the Corporation's policies and programs relating to customer credit scoring parameters, including industry segments, product lines, and overall strategic direction. The Committee will evaluate management's recommendations consistent with those parameters, as established from time to time, and further as consistent with the Corporation's legal and regulatory requirements.

*Strategic Planning Committee.* The purpose of the Strategic Planning Committee is to support the Board in reviewing and assessing the long-range strategic objectives of the Corporation, and ensuring that the Corporation's strategies, priorities and policies are consistent with the Corporation's overriding goals of creating and building long-term sustainable value for its shareholders, and that the Corporation is carrying out its business in accordance with its values. These duties include providing guidance to management in the development of a long-term strategic (as opposed to operating) plan, assessing resource allocations decided by management for consistency with the long-term plan, reviewing the Corporation's performance on major capital investment projects, and reviewing proposed significant changes in the business operations, new or discontinued lines of business, asset or stock purchases or other extraordinary transactions.

## **The Board's Presiding Director**

The Board has named a presiding independent director, whose primary responsibility is to preside over periodic executive sessions of the Board in which management directors and other members of management do not participate. The presiding director also advises the Non-Executive Chairman of the Board and, as appropriate, Committee chairs with respect to agendas and information needs relating to Board and Committee meetings, provides advice with respect to the selection of Committee chairs and performs other duties that the Board may from time to time delegate to assist the Board in the fulfillment of its responsibilities. Alan Zakon currently serves as the presiding director.

## **Selection of Nominees for the Board of Directors**

The Nominating and Corporate Governance Committee considers candidates for Board membership suggested by its members and other Board members, as well as management and stockholders. A stockholder who wishes to recommend a prospective nominee for the Board should notify the Corporation's Corporate Secretary or any member of the Nominating and Corporate Governance Committee in writing with whatever supporting material the stockholder considers appropriate. The Nominating and Corporate Governance Committee will also consider whether to nominate any person nominated by a stockholder pursuant to the provisions of the Corporation's bylaws relating to stockholder nominations.

Once the Nominating and Corporate Governance Committee has identified a prospective nominee, the Committee makes an initial determination as to whether to conduct a full evaluation of the candidate. This initial determination is based on whatever information is provided to the Committee with the recommendation of the prospective candidate, as well as the Committee's own knowledge of the prospective candidate, which may be supplemented by inquiries to the person making the recommendation or others. The preliminary determination is based primarily on the need for additional Board members to fill vacancies or expand the size of the Board and the likelihood that the prospective nominee can satisfy the evaluation factors described below. If the Committee determines, in consultation with the Non-Executive Chairman of the Board and other Board members as appropriate, that additional consideration is

warranted, it may gather additional information about the prospective nominee's background and experience. The Committee then evaluates the prospective nominee against the standards and qualifications set out in the Corporation's *Corporate Governance Guidelines*, including:

the ability of the prospective nominee to represent the interests of the stockholders of the Corporation;

the prospective nominee's standards of integrity, commitment and independence of thought and judgment;

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the prospective nominee's ability to dedicate sufficient time, energy and attention to the diligent performance of his or her duties, including the prospective nominee's service on other public company boards, as specifically set out in the Corporation's *Corporate Governance Guidelines*;

the extent to which the prospective nominee contributes to the range of talent, skill and expertise appropriate for the Board; and

the extent to which the prospective nominee helps the Board reflect the diversity of the Corporation's stockholders, employees, customers and communities.

The Committee also considers such other relevant factors as it deems appropriate, including the current composition of the Board, the balance of management and independent directors, the need for Audit Committee expertise and the evaluations of other prospective nominees. In connection with this evaluation, the Committee determines whether to interview the prospective nominee, and if warranted, one or more members of the Committee, and others as appropriate, interview prospective nominees in person or by telephone. After completing this evaluation and interview, the Committee makes a recommendation to the full Board as to the persons who should be nominated by the Board, and the Board determines the nominees after considering the recommendation and report of the Committee.

### **Determination of Director Independence**

The Board and the Nominating and Corporate Governance Committee have adopted *Corporate Governance Guidelines* for the Corporation. The *Guidelines* may be found on the Corporation's web site at [www.microfinancial.com](http://www.microfinancial.com).

Pursuant to the *Guidelines*, the Board undertakes a review of director independence annually. During this review, the Board considers transactions and relationships between each director or any member of his or her immediate family and the Corporation and its subsidiaries and affiliates. The Board also examines transactions and relationships between directors or their affiliates and members of the Corporation's senior management or their affiliates. As provided in the *Guidelines*, the purpose of this review is to determine whether any such relationships or transactions are inconsistent with a determination that the director is independent.

As a result of this review, the Board has affirmatively determined that all of the directors are independent of the Corporation and its management under Nasdaq Stock Market rules and the standards set forth in the *Corporate Governance Guidelines*, with the exception of Peter Bleyleben and Richard Latour who are considered inside directors because of their past or present employment by the Corporation. In making this decision, the Board considered all relationships between the Corporation and the directors, including certain amounts of indebtedness of the Corporation to three directors, all of which was repaid in full during 2006. The Board also considered the relationships between directors who serve together on the same outside boards (including Dr. Bleyleben and Mr. Harder, who served on the same board of a privately held company until its sale in 2008, and Mr. von Mering and Dr. Boyle, who served on the same board of a publicly traded company through 2007), the former employment relationship of Dr. Boyle to the Corporation which ended in 1987, and the stock ownership positions of each director. The Board determined each such relationship, and the aggregate of such relationships, to be immaterial to the applicable director's ability to exercise independent judgment.

### **Meetings of the Board of Directors during Fiscal 2008**

In 2008, all MicroFinancial Board members attended over 75% of the aggregate of the meetings of the MicroFinancial Board and its committees on which they served. The Corporation does not have a formal policy relating to attendance



of Board members at its annual meeting of stockholders, but it encourages all members of its Board to attend. Four of the seven Board members attended the 2008 Special Meeting of Stockholders in Lieu of Annual Meeting.

The Board of Directors met eight times during fiscal 2008.

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**Compensation of Directors**

Since July 2005 and through fiscal 2007, the Corporation's compensation package for non-employee members of its Board of Directors included an annual retainer of \$16,000 paid either in all stock or 40% in cash and 60% in stock; a cash fee of \$1,000 per Board meeting and \$500 per committee meeting, with the exception of telephone conferences; a fee of \$5,000 for the chairman of the Corporation's Audit Committee, payable in either stock or a combination of stock and cash; and a number of shares of common stock between 2,500 and 5,000. The exact number of shares issued was determined within the established range by the Compensation and Benefits Committee by reference to the achievement of the goals established for the chief executive officer and management generally, and directors could elect to receive 40% of the value in cash instead of stock.

In January 2008, after soliciting the advice of Mercer Human Resources Consulting, the Compensation and Benefits Committee revised the annual compensation package to be provided to non-employee directors. Beginning in 2008, the compensation package for non-employees is comprised of:

an annual retainer of \$20,000, to be paid at the director's election either entirely in shares of stock or 40% in cash and 60% in shares of stock, in each case with full vesting upon the date of issuance;

a cash fee of \$1,250 for meetings, including committee meetings, not held by telephone and not held on the same day as a full Board meeting;

committee meeting fees of \$500 for telephonic meetings and meetings on the same day as Board meetings;

a fee for the Chair of the Corporation's Audit Committee of \$10,000 per year, to be paid either entirely in shares of stock or 40% in cash and 60% in shares of stock, in each case with full vesting upon the date of issuance;

a fee for the Non-Executive Chairman of the Board of \$20,000 per year, to be paid either entirely in shares of stock or 40% in cash and 60% in shares of stock, in each case with full vesting upon the date of issuance;

a stock grant made annually to each non-employee director valued at \$42,000 on the date of grant, with all shares of stock fully vested upon the date of issuance; and

health insurance benefits for those non-employee directors who elect to participate, with the cost to be borne partially by the Corporation, consistent with its past practices.

Committee chairs decide at the time of any meeting whether the meeting is substantive enough to merit the committee fees described above. In making these revisions to the director compensation policy, the Compensation and Benefits Committee felt it was appropriate to increase the board meeting fees to bring them in line with market practices, and to measure the annual equity award as a fixed dollar amount rather than a fixed number of shares.

The following table sets forth the compensation paid to each director of the Corporation for 2008, with the exception of Mr. Latour (whose compensation is presented in the executive compensation tables elsewhere in this proxy statement):

**DIRECTOR COMPENSATION**

Name	Fees Earned or	Stock	Option	Non-Equity Incentive Plan	All Other	Total (\$)
	Paid in Cash \$(1)	Awards \$(2)	Awards \$(3)	Compensation (\$)	Compensation \$(4)	
Peter R. Bleyleben	\$ 79,750	\$ 33,000			\$ 12,904	\$ 125,654
Brian E. Boyle	\$ 10,750	\$ 62,000			\$ 14,156	\$ 86,906
John W. Everets	\$ 16,750	\$ 76,166			\$ 9,401	\$ 102,317
Torrence C. Harder	\$ 9,250	\$ 62,000			\$ 9,401	\$ 80,651
Fritz von Mering	\$ 10,750	\$ 78,563			\$ 7,915	\$ 97,228
Alan Zakon	\$ 10,250	\$ 62,000			\$ 9,335	\$ 81,585

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- (1) Fees earned or paid in cash represents payment of Board meeting and committee service fees, and any portion of the Board retainer fees taken in cash, other than for Dr. Bleyleben. For Dr. Bleyleben, such amount represents his annual salary as an employee of the company through the expiration of his employment agreement with the Corporation on June 30, 2008 in the amount of \$68,000; and thereafter, a prorated portion of his regular Board fees and Non-Executive Chairman fee. See Employment Agreements below.
- (2) Represents the compensation costs for financial reporting purposes for the year under FAS 123(R). For Dr. Boyle, Mr. Harder and Dr. Zakon, this represents a retainer fee of 5,391 shares valued at \$3.71 per share granted July 10, 2008 and a 2008 stock bonus of 18,261 shares valued at \$2.30 per share granted February 3, 2009. For Mr. Everets, this represents partial vesting of a 25,000 restricted share grant dated August 15, 2006, made upon his election to the Board, with vesting of 1,250 shares at \$5.25 on January 2, 2008, 1,250 shares at \$5.15 at April 1, 2008, 1,250 shares at \$3.40 at July 1, 2008 and 1,250 shares at \$3.93 on October 1, 2008. It also includes a retainer fee of 3,235 shares valued at \$3.71 on July 10, 2008 and a 2008 stock bonus of 18,261 shares at \$2.30 per share granted on February 3, 2009. For Mr. von Mering, this represents shares vesting in connection with a 25,000 restricted share grant dated February 4, 2004 upon his election to the Board, with vesting of 1,250 shares valued at \$5.25 per share on January 2, 2008. It also includes 8,086 shares valued at \$3.71 per share on July 10, 2008 representing a retainer fee and service as the audit committee chairman as well as 18,261 shares valued at \$2.30 per share granted February 3, 2009 in connection with the annual bonus. For Dr. Bleyleben, this represents a pro rata retainer fee and Non-Executive Chairman fee of 3,235 shares valued at \$3.71 per share granted July 10, 2008 and a 2008 pro rata stock bonus of 9,130 shares valued at \$2.30 per share granted February 3, 2009.
- (3) At December 31, 2008, the aggregate number of option awards outstanding to directors was: Dr. Bleyleben 200,000 shares; Dr. Boyle 195,000 shares; Mr. Everets 0 shares; Mr. Harder 195,000 shares; Mr. von Mering 0 shares; Dr. Zakon 195,000 shares. Mr. von Mering and Mr. Everets were granted restricted stock in connection with their initial election to the Board. At fiscal year end, the unvested portion of these awards for Mr. von Mering and Mr. Everets represented 0 and 8,750 shares, respectively.
- (4) All other compensation represents payments made by MicroFinancial relating to health insurance benefits. For Dr. Bleyleben, such amount also includes \$2,040 in matching contributions under the Corporation's 401(k) plan and executive disability insurance policy premiums paid by the Corporation in the amount of \$3,718 during the term of his employment agreement. See Employment Agreements below.

## **Certain Relationships and Related Person Transactions**

There are no transactions since the beginning of fiscal 2008, and no presently proposed transactions, in which the Corporation was or is to be a participant, of the nature required to be disclosed under Item 404(a) of Regulation S-K.

Consistent with the requirements of the Nasdaq Stock Market, the Audit Committee of the Board of Directors of the Corporation reviews and oversees any transactions with a related person within the scope of the SEC's rules on disclosure of such transactions. The Corporation does not have a written policy relating to such review.

## **Communications with the Board of Directors**

Stockholders and other parties interested in communicating directly with the non-management directors may do so by writing to any non-management director, c/o MicroFinancial Incorporated, 10-M Commerce Way, Woburn, Massachusetts 01801. The Nominating and Corporate Governance Committee of the Board has approved a process for handling letters received by the Corporation and addressed to non-management members of the Board. Under that

process, the Chief Financial Officer of the Corporation reviews all such correspondence and regularly forwards to the Board a summary of all such correspondence and copies of all correspondence that, in the opinion of the Chief Financial Officer, deals with the functions of the Board or committees thereof or that he otherwise determines requires their attention. Directors may at any time review a log of all correspondence received by the Corporation that is addressed to members of the Board and request copies of any such correspondence. Concerns relating to accounting, internal controls or auditing matters are immediately brought to the attention of the

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Chairman of the Corporation's Audit Committee and handled in accordance with procedures established by the Audit Committee with respect to such matters.

### **The Corporation's Code of Ethics**

The Corporation has adopted a *Code of Business Conduct and Ethics*, which is applicable to all directors and employees of the Corporation, including the principal executive officer, the principal financial officer and the principal accounting officer. The *Code of Business Conduct and Ethics* may be found on the Corporation's web site at [www.microfinancial.com](http://www.microfinancial.com). The Corporation intends to post amendments to or waivers from its *Code of Business Conduct and Ethics* (to the extent applicable to its chief executive officer, principal financial officer or principal accounting officer) at this location on its website.

## **AUDIT COMMITTEE REPORT**

*Notwithstanding anything to the contrary set forth in any of the Corporation's previous filings under the Securities Act of 1933, as amended, or the Exchange Act that might incorporate future filings, including this proxy statement, in whole or in part, the following Audit Committee Report set forth herein shall not be incorporated by reference into any such filings and shall not otherwise be deemed filed under such Acts.*

In connection with the preparation and filing of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2008, the Audit Committee (i) reviewed and discussed the audited financial statements with management, (ii) discussed with Vitale, Caturano & Co., the Corporation's independent registered public accounting firm (Caturano), the matters required to be discussed by Statement of Auditing Standards 61, as amended and as adopted by the Public Company Accounting Oversight Board (United States), or PCAOB, and (iii) received the written disclosures and the letter from Caturano required by applicable requirements of the PCAOB regarding its communications with the Audit Committee concerning independence, and discussed the independence of Caturano with such firm. Based on the review and discussions referred to above, among other things, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2008.

### **Audit Committee:**

Fritz von Mering, Chairman,  
Brian E. Boyle,  
Torrence C. Harder

## **COMPENSATION DISCUSSION AND ANALYSIS**

### **Introduction**

The Compensation and Benefits Committee of our Board of Directors has the responsibility of developing, overseeing and implementing our overall compensation philosophy, which is described in more detail below. It has the sole authority to establish the total compensation of our Chief Executive Officer and other executive officers, as well as the specific elements of compensation that make up their total compensation. It also has the sole authority to establish compensation for our Non-Executive Chairman and other members of our Board of Directors. In practice, the Compensation and Benefits Committee has historically recommended its compensation decisions to the full Board of Directors for approval.

In this analysis, the term named executive officers refers to our Chief Executive Officer, our Chief Financial Officer, and the other executive officers included in the Summary Compensation Table on page 17. We also refer to the Compensation and Benefits Committee as the committee or the compensation committee.

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### **Overview and Philosophy**

The primary objectives of the compensation committee are to ensure that our executive compensation and benefits programs:

- reflect our entrepreneurial orientation;
- are competitive with other companies of similar size and business;
- safeguard our interests and the interests of our stockholders;
- are effective in driving performance to achieve financial goals and create stockholder value;
- foster teamwork on the part of management;
- are cost-efficient and fair to employees, management and stockholders; and
- are well communicated to and understood by program participants.

The committee's executive compensation policies are designed to attract, motivate and retain highly qualified executive officers who can enhance stockholder value, and to support a performance-oriented environment that rewards achievement of the financial goals we establish. The compensation committee meets at least once and usually several times during each fiscal year to review our existing compensation and benefits programs and to consider modifications that seek to provide a direct relationship between executive compensation and sustained corporate performance.

The philosophy of the committee is to create and maintain an environment where compensation is linked to performance. The committee seeks to ensure that a significant portion of each executive's compensation is contingent upon the achievement of company-wide goals and objectives. The committee also strives to ensure that the compensation packages provided to our executive officers are competitive with those of other companies engaged in the equipment financing industry to ensure that we can attract, motivate, and retain seasoned industry talent.

We compensate our executive officers through three principal types of compensation: annual base salary, annual bonus payments (which may include both a cash and an equity component), and long-term equity incentive awards through stock options or stock awards. The committee, as a matter of policy, places substantial emphasis on the bonus plans and long-term stock options and stock awards, or combinations of these components, since it believes that rewarding executive officers with respect to both our annual financial performance and our long-term share appreciation is in the best interest of the shareholders.

The committee reviews its compensation philosophy annually during the first quarter of each year. In early 2007, the committee engaged a compensation consultant to conduct a review of our compensation practices. Following this review, the committee adopted a compensation plan for 2007 that reflected a shift toward an increased use of long-term equity-based incentives in the form of stock options compared to prior years. This approach was substantially followed again in 2008, with variations described below. More information on the compensation consultant's role is provided below under Compensation Consultant and more information on the 2008 compensation program may be found below under Compensation Program Design for 2008.

### **Committee Purpose and Responsibilities**



One of the primary responsibilities of the compensation committee is to determine the total target compensation levels for the senior executive officers and to establish annually the executive goals and objectives which will determine the actual rewards against those targets.

The committee is charged with ensuring that the target compensation levels and the allocation of short term and long term components is sufficient to attract, motivate, and retain seasoned professional managers, while at the same time ensuring that the pay is reasonable and fair to our stockholders when compared to executive officers of similar position and responsibility at other firms.

The committee also recommends to the Board any changes to the total annual compensation for service on our Board of Directors or for service as a member or chair of any of the various committees of the Board. Until June

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2008, Dr. Bleyleben, our Non-Executive Chairman, was compensated under the terms of an employment agreement with us, and the committee had responsibility for setting and overseeing his compensation under this agreement. Following June 2008, Dr. Bleyleben is compensated on the same basis as our other non-employee directors.

The agenda for a meeting of the committee is typically determined by its chairman. Compensation committee meetings are generally attended by the committee members, the President and Chief Executive Officer, the Non-Executive Chairman and, where applicable, the compensation consultant. The committee meets in an executive session at every committee meeting. The committee chairman reports the committee's determinations and recommendations on executive compensation matters to the full Board.

Our President and Chief Executive Officer, our Chief Financial Officer, our Vice President of Human Resources, our outside counsel, and our compensation consultant, as applicable, are typically called upon to supply information to the committee to support their review process.

The committee typically receives materials in advance of each meeting which will vary according to the specific meeting agenda. These materials may include, among other items:

- financial reports compared to budget goals and objectives;
- qualitative goals and objectives of the President and Chief Executive Officer;
- calculations and reports on levels of achievement against performance objectives;
- information on officers' current stock ownership levels and other compensation; and
- tally sheets outlining the total compensation packages for certain executive officers.

## **Compensation Consultant**

In early 2007, the compensation committee engaged Mercer Human Resources Consulting ( Mercer ) to conduct a review of the annual compensation for our executive officers. Mercer provided the committee with relevant market data and alternatives to consider when making compensation decisions for our Non-Executive Chairman and our President and Chief Executive Officer and on the recommendations being made by our President and Chief Executive Officer for our other executive officers. Mercer assisted the committee in designing the 2007 compensation program. In the fourth quarter of 2007, Mercer also met with management to solicit feedback on the new structure of the compensation program in 2007, and that feedback was communicated to the committee for consideration in designing the 2008 plan and subjective and objective goals. Mercer was also consulted in November and December 2008 in connection with a review of expected compensation awards under the Corporation's bonus plan formula for 2008 and to assist the committee in making certain adjustments to the quantitative application of the bonus plan formulas as will be discussed below. Mercer also recommended a change to the allocation of awards under the incentive plan between cash and options, as described in more detail below.

The committee engaged Mercer directly and has sole authority to make decisions relating to that engagement. Mercer is not otherwise engaged to perform any other activities or services for MicroFinancial or our management. The committee is copied on all final work product developed, and receives copies of the final invoices from Mercer. Based on all of these factors, the committee is satisfied that Mercer is independent of our management in evaluating and making recommendations with respect to executive compensation.

## **Role of Executive Officers in Compensation Decisions**

Our President and Chief Executive Officer reviews annually the performance of each of the senior executive officers. He also presents a review of his own performance against specific agreed upon goals to the committee and the full Board. He makes this report to the committee along with any proposed recommendations for salary adjustments and/or annual bonus amounts. As noted above, our Chief Executive Officer, Chief Financial Officer, Vice President of Human Resources and outside advisors are often called upon to provide information to the committee. The committee has the sole discretion for the ultimate approval for any targets or adjustments proposed by management or any other party.

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### **Consideration of Regulatory Requirements**

Under Section 162(m) of the Internal Revenue Code, deductions for compensation of named executive officers in excess of \$1 million, other than compensation that qualifies as performance-based, are disallowed for publicly traded companies. Since levels of compensation we pay are typically expected to be significantly below \$1 million, the compensation committee has determined that it is unnecessary in most years to seek to qualify the components of its compensation program as performance-based compensation within the meaning of Section 162(m). The committee's present intention remains that, as long as it is consistent with its overall compensation objectives, substantially all federal income tax deductions attributable to executive compensation should not be subject to the deduction limitation of Section 162(m). In this regard, none of the named executive officers had compensation in excess of \$1 million and as such, all of the compensation paid to the named executive officers in 2008 was Internal Revenue Code Section 162(m) qualified.

We account for stock based payments, including our stock options, in accordance with the requirements of FASB Statement 123(R). This statement generally requires us to measure the expense of share-based payments to employees and directors based upon the grant date fair value of the award, and to recognize that expense over the vesting period of the award. The committee considers the impact of this statement on our financial statements in determining the mix of total compensation to named executive officers between equity and non-equity awards.

### **Compensation Program Design for 2008**

For fiscal year 2008, we paid our executive officers through three principal types of compensation: (i) annual base salary, (ii) an annual bonus payment, and (iii) long term incentive options. The bonus payment was paid under an incentive plan that was designed to pay, if certain threshold performance measures were met, an annual bonus in cash or a combination of cash and equity. Up to a targeted bonus amount, the bonus is paid in cash, and any amounts above that are paid in stock options, as described more fully below. The long term incentive component consisted of a separate option grant that was measured by reference to the executive officers' base salary rather than performance. The committee, as a matter of policy, places substantial emphasis on the equity component of the annual total compensation since it believes that rewarding executive officers with respect to both our annual financial performance and our long-term share valuation is in the best interest of the shareholders. The committee will continue to evaluate, and adjust if necessary, the appropriate mix of cash and equity compensation elements for each member of the executive team during 2009. See Compensation Program for 2009 below.

#### ***Base Salary***

The annual base salary of each executive officer is based on the scope of his or her responsibility and accountability within the corporation, as well as on performance and experience criteria. In addition, the compensation committee considers the prior year's base salary and the internal pay equity of each executive in determining base salary for the current year. The compensation committee determines and makes final decisions regarding base salary of executives on an annual basis, typically in February of each year when the committee determines the annual compensation plan.

Salary levels are also considered upon promotion of an individual, a new hire, or a change in responsibility. The compensation committee recognizes that, to some degree, the determination of an executive officer's base salary involves subjective considerations. In 2007, Mercer conducted a survey of broad-based and industry-specific compensation data in order to confirm that each executive officer's total target compensation fell between the market median and the 75th percentile for his position. Base salaries for 2008 were eligible for an increase over 2007 levels that approximated Consumer Price Index (CPI) rates for the Northeast region.

#### ***Bonus Plans***

A significant component of the executive officers' total target compensation consists of an annual bonus payment, which is intended to tie the executive officer's compensation closely to our performance and to provide executive officers with incentives to achieve our goals, increase stockholder value, and function as a team.

For purposes of determining the bonus payment eligibility and target payouts, the compensation committee annually establishes specific goals and objectives for the senior executives to achieve during the year. These objectives are typically finalized in February of each year and communicated to the executive officers in such a way that the plans are easily understood by each member of the senior management team. These objectives are based

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primarily on total company performance, and have traditionally been the same for each of the named executive officers, so as to foster a spirit of teamwork and cooperation among senior management in achieving common goals.

In order for any bonuses to be paid under the 2008 plan, we needed to meet a net income target for fiscal year 2008. However, under the plan, the determination whether the net income target had been met was subject to the exercise of discretion by the committee, which could consider achievements relating to our long-term growth objectives.

For 2008, the net income target originally set at the beginning of the year was not met. However, the Corporation achieved substantial growth in reaching over 90% of its combined unearned income and origination targets described below, while management continued to increase both pricing and credit standards as the broader financial market deteriorated. In light of these factors, the committee decided to exercise its discretion to modify the net income trigger in a manner that acknowledged the meaningful achievements of the management team in a difficult economic environment, while not awarding a full-value bonus as if the net income target had been achieved in its original form. Based on this determination, it was the consensus of the committee to approve a bonus award of 67% of the award that would have otherwise been paid if the net income target had been met, under the origination, unearned, and subjective measures outlined below.

The amount of the bonus payment for each executive officer was determined by reference to a matrix that evaluated performance on two company-wide financial tests (new originations and unearned income) and also on a subjective component that took into account personal achievement, progress on our strategic plan, and credit quality. Achievement of subjective measurements was measured by the President and Chief Executive Officer for all executives other than himself, for consideration by the committee and the Board, and by the committee and the Board in the case of the President and Chief Executive Officer.

With respect to both the objective and subjective components of the 2008 plan, achievement of at least 80% of the applicable goal was required to receive any amount under that component, at which threshold the officer would receive 50% of the targeted bonus amount. For the objective portion, whether this 80% threshold had been met was measured on the basis of the aggregate levels of originations and unearned income. If that threshold were met, actual payments would be calculated giving different weights to originations and unearned income for different executive officers as reflected below. The targeted bonus amounts would be paid in full at 100% achievement, and up to 120% of the target payment would be possible (at 120% achievement or above on all measurements). Achievement at levels between those thresholds was prorated. The target payment was set as a percentage of each officer's base salary. The quantitative nature of the plan metrics significantly limits the committee's ability to exercise any positive or negative discretion in the determination of the achievement of the objectives. The elements are reflected in the following table, together with the actual awards made under the 2008 plan as a percentage of base salary, as determined in February 2009 (after giving effect to the downward adjustment in consideration of the net income target as described above).

<b>Executive Officer</b>	<b>Sum of Originations and Unearned Income</b>	<b>Subjective Analysis</b>	<b>Target Bonus (as Percentage of Base Salary)</b>	<b>Actual Bonus (as Percentage of Base Salary)</b>
<b>Richard F. Latour</b> President and Chief Executive Officer	Originations:	35%	100%	57.8%
	Unearned income:	35%		
	Total:	70%		
<b>James R. Jackson, Jr.</b> Vice President and Chief	Originations:	35%	50%	29.2%
	Unearned income:	45%		

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Financial Officer	Total:	80%			
<b>Stephen Constantino</b>	Originations:	40%	20%	20%	10.7%
Vice President, Human Resources	Unearned income:	40%			
<b>Thomas Herlihy</b>	Total:	80%			
Vice President of Sales and Marketing, TimePayment Corp.	Originations:	55%	10%	65%	33.6%
<b>Steven J. LaCreta</b>	Unearned income:	35%			
Vice President, Legal and Vendor/Lessee Relations	Total:	90%			
	Originations:	40%	20%	30%	17.2%
	Unearned income:	40%			
	Total:	80%			

The 2008 origination targets were set in such a way that required an approximately 45% increase over 2007 levels for us to meet them. If we met the 2008 origination targets, we would need to approximate 2007 implicit

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interest rates and portfolio quality standards in 2008 in order to achieve the unearned income targets. Actual achievement for 2008 exceeded 90% of the cumulative originations and unearned income target levels.

Under the 2008 plan as originally formulated, the total bonus, once determined, would be paid in cash up to 87.5% of the target bonus amount. Bonus amounts in excess of 87.5% of the target would be paid in stock options representing a number of shares determined by dividing the remaining bonus amount by the Black-Scholes value of the option on the grant date. The exercise price of any option grants would be equal to the market value of the stock on the grant date (the date that the final determinations of awards were approved by the Board). Any option grants would vest ratably over five years, with the first 25% vesting on the second anniversary of grant and 25% vesting each year thereafter.

In late 2008, upon the recommendation of Mercer, the committee decided to alter the mix of the total bonus payment between cash and options. As revised, any bonus would be paid in cash up to 100% of the target award (instead of 87.5%), with amounts above the target being paid in options as calculated above. The change was made, in part, in response to the Corporation's stock price having declined since the plan was originally put into place, resulting in a potentially larger number of option awards than was anticipated under both the incentive plan (in the event of achievement above target levels) and the salary-based long term incentive option grants described in more detail below.

In general, the committee intended the 2008 incentive plan to allow performance by the executive officers to drive superior pay levels. In finalizing the awards, including making the determination to pay a portion of the amounts that would otherwise have been payable if the net income targets had been achieved, the committee took into account the context of the Corporation's financial results, including the Corporation's achievements in light of the overall business environment in its industry, the economic turbulence generally during 2008, the tightened credit standards adopted by the Corporation in 2008, and effective price increases implemented by the Corporation. The committee, with the concurrence of Mercer, felt it was important and fair to reward the excellent performance of management under these conditions.

### ***Incentive Options***

Also in February 2009, our Board, acting upon the recommendation of the committee, approved the grant of long term incentive option awards to named executive officers. The options were priced at the closing market price of our common stock on the grant date. The grant was valued at 20% of each named executive officer's annual salary, with the number of shares determined by dividing such dollar amount by the Black-Scholes value of the options on the grant date. These grants are intended to permit executives to begin building a long-term equity position in the company, and are in addition to any incentive awards earned under the performance measurements of the 2008 bonus plan described above. These options will vest over five years, in 25% increments beginning on the second anniversary of the grant. Long term awards were made in February 2008 based on a similar formula for our fiscal 2007. A comparable but smaller grant was made in February 2007 with respect to 2006 performance, except that the 2006 options will not vest until the fifth anniversary of their grant, at which time they will vest in full.

The use of stock options was designed to facilitate the retention of key executives through the use of a five year vesting schedule, while better aligning executive performance with shareholder value appreciation and rewarding the executives for such appreciation.

The total long-term incentive option grants awarded in February 2009 for services during fiscal 2008 were as follows:

**L.T. Incentive**



<b>Executive Officer</b>	<b>Title</b>	<b>Options</b>
Richard F. Latour	President and Chief Executive Officer	99,380
James R. Jackson, Jr.	Vice President and Chief Financial Officer	69,348
Stephen Constantino	Vice President, Human Resources	44,498
Thomas Herlihy	Vice President of Sales and Marketing, TimePayment Corp.	62,335
Steven J. LaCreta	Vice President, Legal and Vendor/ Lessee Relations	45,497

*Bonuses for Other Management Team Members.* To enhance the retention of other management personnel and to foster a spirit of teamwork, the compensation committee also establishes a bonus pool, using the same philosophy used for executive officers, and delegates to our President and Chief Executive Officer the decision as to

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how and to whom to allocate the approved funds. Any such bonuses are also determined and paid upon completion of our annual audit. These funds are paid out in cash only.

*Stock Ownership Objectives.* The compensation committee believes that providing our key employees, including executive officers, with the opportunity to acquire stock ownership over time is the most desirable way to align their interests with those of our stockholders. Shares of common stock or options awarded under the bonus plan provide an incentive that focuses the attention of executive officers on managing the corporation from the perspective of an owner with an equity interest in the business. In addition, equity awards are a key part of our program for motivating and rewarding managers and other employees over the long term. During 2008 we had no specific policies or guidelines in place that would require each named executive officer to maintain a minimum ownership interest our stock, although we are in the process of implementing ownership guidelines for 2009. See Compensation Program for 2009 below. However, through the grant of stock and option awards, we have encouraged our managers and other employees to obtain and hold our stock. The value that employees will receive upon the sale of shares underlying stock options and the sale of stock granted to employees is tied to future performance of our stock. Since 2007, the Board has also instituted a policy with respect to options granted under the bonus plan and the incentive options that will not permit more than 50% of the shares underlying any portion that has vested to be sold by the executive officer until the end of the full five-year vesting period.

*Timing of Awards.* The committee does not grant awards of stock (including options) on the basis of price other than the closing price on the determination date, nor does it typically grant awards of stock based upon a date different from the grant date. On occasion in the past, a grant has been priced pursuant to the approving board resolution at the closing market price on a selected future date after the Board's approval (which date was specified in the resolution) for administrative reasons. The timing of grants is based upon the meeting schedule of the audit and compensation committees, without regard to stock price at the time or the anticipated disclosure of material news or other pending corporate developments. Because the performance measures for the annual bonus plan are based on year-end corporate financial results, actual awards are determined as soon as possible after substantial completion of the annual audit, and consequently the payouts under the plan, if any, may be made shortly before our year-end earnings release.

**Compensation Program for 2009**

The committee has not materially changed its compensation philosophy for 2009, but has made minor changes to the bonus plan administration and the character of the equity awards. Total compensation for each executive officer for 2009 will still have three primary components: base salary, a bonus plan and an incentive equity grant. Base salaries for 2009 will increase over 2008 levels at rates approximating the consumer price index (CPI) for the Northeast region. The bonus plan will include target levels set as a percentage of the officer's base salary, and will pay cash up to 100% the target amounts, and equity representing any amounts above that up to 120%. Instead of using a quantified net income target before any awards may be paid, the committee will evaluate the Corporation's net income compared to its budgeted targets and make a subjective judgment whether the Corporation's actual net income would justify awards being made for 2009. If the trigger is met, bonus amounts will be determined by reference to a combination of origination levels, unearned income targets and subjective goals, in addition to collection targets and SG&A expense goals for specified officers. As in the 2008 plan, 50% of the target bonus will be paid at 80% achievement of the performance goals for 2009. However, awards will also be made on a graduated basis between 70% achievement (0% of the targeted award) and 80% achievement (50% of the targeted award). The incentive equity grant will represent, as in 2008, an equity award valued at 20% of the named executive officer's base salary.

The committee has recommended the use of restricted stock units instead of options in the equity incentive programs, as well as equity ownership guidelines for management and the Board. In 2008, the dollar value of an equity award was divided by the Black-Scholes value of an option in order to determine the number of options that would comprise the related equity award. In 2009, the committee is considering using restricted stock units (or RSUs) with a five year

vesting schedule beginning at the end of the second year. Dividends would accumulate on RSU awards and be payable upon vesting. The number of RSUs comprising an award would be determined by dividing the dollar value of the award by the greater of the book value or market value at the time of the award. The stock ownership guidelines would require the named executive officers to hold and retain during their employment specified numbers of shares (excluding shares underlying options but including RSUs), approximating three times annual salary for the Chief Executive Officer, two times annual salary for the Chief Financial Officer, and one times

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annual salary for the other named executive officers, with a period of five years from the date of implementation or employment to achieve compliance. Members of the Board will be required to hold and retain shares representing three times the annual retainer.

**Perquisites and Other Personal Benefits**

The named executive officers are entitled to very few benefits that are not otherwise available to all of our employees.

In addition, all of the named executive officers were eligible to participate in an executive disability insurance plan with the policy premiums paid by us. The total amount of the premiums we paid under this plan in 2008 were \$13,176. Dr. Bleyleben, our Non-Executive Chairman, is also eligible for this benefit.

**401(k) Savings Plan**

The 401(k) savings plan is a tax-qualified retirement savings plan pursuant to which all full-time employees, including the named executive officers, are eligible to contribute the lesser of 100% of their annual base salary or the limit prescribed by the Internal Revenue Service on a before tax basis. We match 50% of the first 6% of pay that is contributed to the plan. All contributions made by the employee are fully vested upon contribution while our matching contributions vest over a five year period from the employee's date of hire regardless of their plan participation date. For 2008, an aggregate of \$99,696, net of forfeitures, was allocated to the company match for all employees who participated in our sponsored 401(k) plan. All of the named executive officers participated in the plan for 2008.

**COMPENSATION COMMITTEE REPORT**

The Compensation and Benefits Committee of the MicroFinancial Board of Directors has reviewed and discussed the Compensation Discussion and Analysis with management and, based upon such review and discussions, has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

**Compensation and Benefits Committee**

Alan Zakon, Chairman  
Brian E. Boyle  
Fritz von Mering

Table of Contents**COMPENSATION OF EXECUTIVE OFFICERS**

The following table sets forth the compensation of (i) Mr. Latour, our Chief Executive Officer, (ii) Mr. Jackson, our Chief Financial Officer, and (iii) Messrs. Constantino, LaCreta and Herlihy, our three most highly compensated executive officers, other than Messrs. Latour and Jackson, who were serving as executive officers as of December 31, 2008 (collectively, the named executive officers), in each case for the years ended December 31, 2006, 2007 and 2008.

**Summary Compensation Table**

Name and Principal Position(a)	Year (b)	Salary (\$)(c)	Bonus (\$)(d)	Stock Awards (\$)(e)(1)	Option Awards (\$)(f)(1)	Non-Equity- Incentive Plan Compensation (\$)(g)	Deferred Compensation (\$)(h)	All Other Compensation (\$)(i)(2)	Total (\$)(j)	Change in Pension Value and
										Change in Pension Value and Non-Equity- Incentive Plan Deferred All Other Earnings
<b>Richard F. Latour</b>	2008	298,290			30,852	172,324		15,522		516,988
President and Chief Executive Officer	2007	287,370	25,000		7,011	251,449		14,447		585,277
	2006	299,423		121,362		121,368		8,041		550,194
<b>James R. Jackson, Jr.</b>	2008	207,681			14,656	60,682		6,900		289,919
Chief Financial Officer	2007	200,529			2,446	87,731		6,750		297,456
	2006	194,112		42,344		42,345		4,618		283,419
<b>Stephen Constantino</b>	2008	132,998			6,579	14,296		4,335		158,208
Vice President, Human Resources	2007	128,673			628	22,518		4,162		155,981
	2006	124,555		10,866		10,871		3,963		150,255
<b>Steven J. LaCreta</b>	2008	135,982			7,650	23,441		1,360		168,433
Vice President, Legal and Vendor/Lessee Relations	2007	131,560			956	34,535		1,628		168,679
	2006	119,246		15,607		15,609		1,167		151,629
<b>Thomas Herlihy</b>	2008	186,309			14,694	62,517		6,900		270,420
Vice President, Sales and Marketing, TimePayment Corp.	2007	180,250			2,858	102,517		3,744		289,369
	2006	168,846		41,866		41,872		6,565		259,149

(1) Represents the compensation expense incurred by the Corporation relating to stock awards and option awards held by the named executive officers determined in accordance with FAS 123(R), using the assumptions described in footnote F to the Corporation's Financial Statements included in the Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2008, provided that no forfeitures of awards have been assumed for the named executive officers.

- (2) Amounts shown in the table under **All Other Compensation** for 2008 reflect: for Mr. Latour, a 401(k) contribution from us of \$6,900 and payment of a disability insurance premium of \$8,622; for Mr. Constantino, a 401(k) contribution from us of \$3,499 and payment of a disability insurance premium of \$836; and for Messrs. Jackson, LaCreta and Herlihy, a 401(k) contribution from us.

In the table above, amounts reflected for 2008 under the **Non-Equity Incentive Plan Compensation** column reflect the cash bonus paid under our 2008 incentive bonus plan. No options were awarded under the 2008 incentive bonus plan for 2008. Amounts under **Option Awards** do not reflect the long term incentive option grants determined in February 2009 under the 2008 incentive plan, because no compensation expense had been recognized during 2008 for such options. Amounts in this column for 2008 reflect compensation expense recognized during the year with respect to options granted in February 2008 and February 2007. For a more detailed description of the 2008 incentive bonus plan and the long term incentive option grants, see **Compensation Discussion and Analysis Compensation Program Design for 2008** above.

Similarly, amounts reflected for 2007 under **Option Awards** reflect compensation expense recognized during the year with respect to options granted in February 2007, but do not reflect any expense for awards made under our incentive bonus plan for 2007, since those awards were granted after the end of that fiscal year.

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Amounts reflected for 2006 under the Stock Awards column and the Non-Equity Incentive Plan Compensation column reflect payments we made under our 2006 incentive plan. These payments were made at 87% of the target bonus under that plan, and were paid 50% in cash and 50% in stock. Stock grants were made February 6, 2007, upon finalization of our year-end results, when the closing stock price of our common stock was \$3.96. We made the stock grants in the following amounts: Mr. Latour (30,647); Mr. Jackson (10,693); Mr. Constantino (2,744); Mr. LaCreta (3,941) and Mr. Herlihy (10,572).

The following table reflects potential payments that could have been made under our 2008 incentive plan. The actual amounts we paid under that plan are reflected in the Summary Compensation Table above and under Compensation Discussion and Analysis Compensation Program Design for 2008. Since stock option awards under the plan are denominated in dollars, and the number of options awarded under the plan is determined by reference to the Black-Scholes value of the options at the time the payment is made, amounts under Estimated Possible Payouts Under Equity Incentive Plan Awards in the table below are reflected in dollars, rather than in numbers of shares.

**Grants of Plan-Based Awards**

	Grant Date (b)	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			Estimated Possible Payouts Under Equity Incentive Plan Awards			All Other Stock Awards of Shares or Underlying Stock	All Other Option Awards of Securities or Underlying Securities	Exercise or Base Price of Option Awards (\$/Sh)(k)	Grant Date	Value
		Threshold (\$)(c)	Target (\$)(d)	Maximum (\$)(e)	Threshold (\$)(f)	Target (\$)(g)	Maximum (\$)(h)	Number of Units (#)(i)	Number of Options (#)(j)			
ard F. Latour	3/6/2008 2/5/2008	\$ 149,145	\$ 298,290	\$ 298,290	\$ 0	\$ 0	\$ 59,658		32,532	\$ 5.85		\$ 57,900
s R. Jackson,	3/6/2008 2/5/2008	\$ 51,920	\$ 103,841	\$ 103,841	\$ 0	\$ 0	\$ 20,768		22,701	\$ 5.85		\$ 40,000
en Constantino	3/6/2008 2/5/2008	\$ 13,300	\$ 26,600	\$ 26,600	\$ 0	\$ 0	\$ 5,320		14,566	\$ 5.85		\$ 25,000
n J. LaCreta	3/6/2008 2/5/2008	\$ 20,397	\$ 40,795	\$ 40,795	\$ 0	\$ 0	\$ 8,159		14,893	\$ 5.85		\$ 26,000
as Herlihy	3/6/2008 2/5/2008	\$ 60,550	\$ 121,101	\$ 121,101	\$ 0	\$ 0	\$ 24,220		20,405	\$ 5.85		\$ 36,000

The Compensation and Benefits Committee of the Board of Directors finalized the 2008 incentive plan in March 2008 for each of the named executives. All awards under the plan were paid out in cash up to 100% of the total target bonus, and all amounts above the target were to be paid in options valued at the Black-Scholes value of the option as of the accounting measurement date. Amounts under **Threshold** in column (c) of the table represent a cash amount equal to 50% of the total target payout; amounts under both **Target** and **Maximum** in columns (d) and (e) each represent a cash grant of 100% of the total target payout (since any amounts above that the target would be reflected in equity grants rather than cash). Amounts under both **Threshold** and **Target** with respect to equity awards (columns (f) and (g)) are reported as zero, since no options would be awarded under the plan unless achievement exceeds 100% of the performance targets. Equity award amounts under **Maximum** (column (h)) represent 20% of the target payout (the difference between the total maximum of 120% of the target payout, less the amount equal to 100% of the target that would be paid in cash). Mr. Latour's target was 100% of his base salary or \$298,290; Mr. Jackson's target was 50% of his base salary or \$103,841; Mr. Herlihy's target was 65% of his base salary or \$121,101; Mr. Constantino's target was 20% of his base salary or \$26,600; and Mr. LaCreta's target was 30% of his base salary or \$40,795. The bonus award outlined above was paid in accordance with the compensation plan upon finalization of our 2008 audited financial statements on February 3, 2009. Since less than 100% of the target payout was achieved, no options were awarded under the 2008 incentive plan.

Option grants under our salary-based long term incentive plan are not reflected in the table above because they were awarded during 2009. These grants were made on February 3, 2009, when the closing market price of our common stock was \$2.30, as follows: 99,380 for Mr. Latour; 69,348 for Mr. Jackson; 44,498 for Mr. Constantino; 45,497 for Mr. LaCreta; and 62,335 for Mr. Herlihy. Grants reported under **All Other Option Awards** (column (j)) in the table reflect the long-term incentive option portion of the February 2008 option awards.



Table of Contents**Outstanding Equity Awards at Fiscal Year-End**

Name	Option Awards				Option Expiration Date	Stock Awards			
	Exercisable Options (#)	Unexercisable Options (#)	Options (#)	Price (\$)		Market Value of Shares or Units of Stock That Have Not Vested	Unearned Shares or Units of Stock That Have Not Vested	Unearned Shares or Units of Stock That Have Not Vested	Unearned Shares or Units of Stock That Have Not Vested
Richard F. Latour	150,000	0		\$ 12.313	2/25/2009				
	100,000	0		\$ 9.781	2/24/2010				
	90,000	0		\$ 13.10	2/20/2011				
	100,000	0		\$ 6.70	2/28/2012				
	0	20,272		\$ 5.77	2/26/2017				
James R. Jackson, Jr.	0	68,724		\$ 5.85	2/5/2018				
	0	7,073		\$ 5.77	2/26/2017				
Stephen Constantino	0	35,896		\$ 5.85	2/5/2018				
	0	1,815		\$ 5.77	2/26/2017				
Steven J. LaCreta	0	17,843		\$ 5.85	2/5/2018				
	0	2,763		\$ 5.77	2/26/2017				
Thomas Herlihy	0	19,919		\$ 5.85	2/5/2018				
	0	8,265		\$ 5.77	2/26/2017				
	0	34,497		\$ 5.85	2/5/2018				

The table above reflects outstanding equity awards at December 31, 2008. See Compensation Program Design for 2008 under the heading Compensation Discussion and Analysis above for a description of option grants made in February 2009 to each of the named executive officers.

### **Option Exercises and Stock Vested**

None of our named executive officers exercised any options in 2008, nor did any executive officer hold any restricted stock awards that vested during 2008.

### **Potential Payments Upon Termination or Change in Control**

The following information and the table below set forth the amount of payments to each of our named executive officers in the event of his termination from employment for cause, without cause, upon disability or death, upon termination by the executive for good reason, termination by the executive without good reason, and in the event of a termination of employment in connection with a change in control. These payment obligations arise under the individual employment agreements that we have entered into with each of our named executive officers. A more detailed summary of those agreements is provided below.

The amounts shown in the table below assume that each executive was terminated on December 31, 2008, under the other assumptions indicated. Accordingly, the table reflects amounts earned as of December 31, 2008 and includes an estimate of amounts that would be payable to the officer upon the occurrence of a termination or a change in control. The actual amounts to be paid to an executive can only be determined at the time of the termination or change in control.

An executive is entitled to receive amounts earned during his term of employment regardless of the manner in which he is terminated. These amounts include base salary, any amounts deferred under our bonus plans, unused vacation pay and any amounts that had previously been earned but deferred. These amounts are not shown in the table.

In the table below, where an executive is entitled to acceleration of the vesting of unvested stock options or stock awards, amounts are reported as zero where the executive has no outstanding awards that are in the money. Certain amounts reported below as disability payments or continued health care benefits may be reduced to the extent that the executive receives disability benefits under our current plans or finds new employment which offers health care coverage, respectively. Thomas Herlihy, the Vice President of Sales and Marketing at TimePayment

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Corp., does not have any agreements or arrangements that would result in payments being made upon or after his termination outside of amounts earned through the date of termination.

	<b>Richard F. Latour</b>	<b>James R. Jackson, Jr.</b>	<b>Stephen Constantino</b>	<b>Steven J. LaCreta</b>
<b>By Company without cause</b>				
Cash severance	\$ 1,044,015	\$ 207,681	\$ 199,497	\$ 135,982
Prorated bonus	287,370			
Accelerated stock options	0	0	0	0
Accelerated restricted stock				
Health care benefits	180,000	18,000	27,000	18,000
Disability premiums	86,160			
Total	\$ 1,597,545	\$ 225,681	\$ 226,497	\$ 153,982
<b>By Company for cause</b>				
No payments	N/A	N/A	N/A	N/A
<b>By Executive with good reason</b>	Same as By Company without cause above.	N/A	N/A	N/A
<b>By Executive without good reason</b>	Same as By Company for cause above.	N/A	N/A	N/A
<b>Upon death</b>				
Twelve months salary	\$ 298,290			
Pro rated bonus	172,324	N/A	N/A	N/A
Accelerated stock options	0			
Accelerated restricted stock				
Total	\$ 470,614			
<b>Upon disability</b>				
Twelve months salary	\$ 298,290	\$ 207,681	\$ 199,497	\$ 135,982
Pro rated bonus	172,324			
Accelerated stock options	0	0	0	0
Accelerated restricted stock				
Total	\$ 470,614	\$ 207,681	\$ 199,497	\$ 135,982
<b>Termination without cause (or by executive with good reason) following change in control</b>				
Cash severance	\$ 1,044,015	\$ 207,681	\$ 193,005	\$ 131,560
Prorated bonus	287,370			
Continued health care benefits	180,000	9,000	9,000	9,000
Accelerated stock options	0	0	0	0
Accelerated restricted stock				
Disability premiums	86,160			
Total	\$ 1,597,545	\$ 216,681	\$ 208,497	\$ 144,982
<b>Termination for cause (or by executive without good reason) following change</b>				

**in control**

No payments

N/A

N/A

N/A

N/A

20

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	<b>Richard F. Latour</b>	<b>James R. Jackson, Jr.</b>	<b>Stephen Constantino</b>	<b>Steven J. LaCreta</b>
<b>Death during change in control period</b>	Same as death. Upon above.	Same as Termination without cause following change in control above.	Same as Termination without cause following change in control above.	Same as Termination without cause following change in control above.
<b>Disability during change in control period</b>	Same as disability. Upon above.	Same as Termination without cause following change in control above.	Same as Termination without cause following change in control above.	Same as Termination without cause following change in control above.

All payments described in the table above would qualify for a tax gross-up in the event they would be subject to an excise tax as excess parachute payments under Section 280G of the Internal Revenue Code, in order to put the executive in the post-tax position he would be in if the tax had not applied. However, under the assumptions outlined above, no such payments would be taxable as excess parachute payments because the payments do not exceed the applicable thresholds, which are based on a multiple of the individual's average annualized compensation over the past five years.

**Employment Agreements**

*Richard F. Latour.* We have entered into an employment agreement with Mr. Latour, which was amended and restated in March 2004. The agreement provides for automatically renewing successive one-year terms unless it is terminated with six months notice. In the event of a termination of Mr. Latour's employment agreement by MicroFinancial without cause, or by Mr. Latour for specified good reason, the employment agreement provides for three years of severance payments to Mr. Latour on the basis of his highest base salary during the employment period. In addition, Mr. Latour would also be entitled to a prorated payment of his base salary to the date of termination, the acceleration of any deferred compensation, and a pro rated percentage of the annual bonus amount paid to him for the prior year. Mr. Latour's current base salary is \$301,273.

If Mr. Latour's employment is terminated by his death, his estate will receive his base salary at the rate in effect at the time of his death for a period of twelve months, and any accrued but unpaid amounts under the bonus program. In the event that his employment is terminated on account of a disability (meaning a mental or physical incapacity to perform his services for a period of six months), he would also receive his base salary for a period of twelve months, plus accrued and unpaid amounts under the bonus program. In the event of either his death or his disability, all unvested stock options or restricted stock awards would become vested. If, in connection with a payment under his employment agreement, Mr. Latour incurs any excise tax liability on the receipt of excess parachute payments as defined in Section 280G of the Internal Revenue Code of 1986, as amended, we would make gross-up payments to return him to the after-tax position he would have been in if no excise tax had been imposed. Except in cases where his employment is terminated for cause or by his death, Mr. Latour would be entitled to receive a continuation of health and disability benefits until the earlier of his death or his 65th birthday, but those amounts would be offset by any benefits provided by any new employer. As used in Mr. Latour's employment agreement, for good reason means the assignment to him of duties inconsistent with his position, authority, duties or responsibilities; our failure to pay the agreed base salary and provide him with benefits; moving him to a location outside of the metropolitan Boston, Massachusetts area; and

our failure to require a successor to assume all obligations under the employment agreement. In exchange for these payments, Mr. Latour has agreed not to compete in certain respects with us for two years following the termination of his employment.

*Peter R. Bleyleben.* In July 2005, we renewed and amended our employment agreement with Dr. Bleyleben, Non-Executive Chairman of the Board of Directors, for a three-year period commencing July 15, 2005 and ending June 30, 2008 (the Employment Term ). Dr. Bleyleben's annual base salary under the agreement was \$130,000. He was not entitled to participate in our annual bonus or profit-sharing plans, but he was entitled to participate in our

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1998 Equity Incentive Plan or any other equity plan adopted by us from time to time, on the same basis as other directors. In the event we terminated his employment agreement with cause during the Employment Term, Dr. Bleyleben would have been entitled to payments on the basis of his base salary through the date of termination. During the Employment Term, Dr. Bleyleben was entitled to health, accident and disability insurance plan benefits on terms no less favorable in the aggregate than the those benefits that we provided to Dr. Bleyleben immediately preceding the Employment Term. After expiration of the Employment Term on June 30, 2008, Dr. Bleyleben has been compensated for his service on our Board of Directors in the same manner as our other non-management directors, and is eligible to participate in such health, accident and disability plans as we may make available to other directors from time to time.

*Other Executives.* We have also entered into separate employment agreements with Messrs. Jackson, Constantino and LaCreta, each amended and restated in May 2005, which are designed to provide an incentive to each executive to remain with us pending and following a change in control (as defined below). Each employment agreement had an initial term of three years from May 2005, with an automatic renewal for a new three year period each one-year anniversary of the date of the agreement unless we give 60 days notice to the executive that the period will not be renewed. If a change in control occurs within that term, the agreement provides for an employment period of one year following the change in control, with automatic extensions upon the expiration of the initial one-year term for successive one-month periods. Pursuant to each employment agreement, the executive will be entitled to receive an annual base salary of not less than twelve times the highest monthly base salary paid or payable to the executive within the twelve months preceding the change in control, as well as participation in bonus, incentive and benefit plans generally no less favorable than those provided or available to the executive prior to the change in control. If the employment agreement is terminated by us other than for cause, death or disability, or is terminated by the executive for specified good reason, we will pay, in a lump sum, the executive the aggregate of the following amounts: (i) one times annual base salary, in the case of Messrs. Jackson and LaCreta and one and one-half times annual base salary, in the case of Mr. Constantino; (ii) any other compensation or bonus previously deferred by the executive, together with any accrued interest or earnings on those amounts; and (iii) any accrued vacation pay. In addition, we would continue to provide health benefits to the executive and the executive's family for at least six months and, if longer, until the next renewal date of the contract.

If the executive's employment is terminated before a change in control, we are obligated to pay the amounts referenced above; however, payments of the executive's annual base salary would be payable over twelve months, in the case of Messrs. Jackson and LaCreta and eighteen months in the case of Mr. Constantino, with payment to be made at the same time that we pay other peer executives of MicroFinancial. In that case, the executive would also be entitled to a continuation of health benefits over the same period. If the employment is terminated because of the executive's disability prior to a change in control, then we would pay the executive the salary amounts described above (including any previously deferred compensation and accrued vacation), less amounts that the executive would be entitled to receive under our disability benefit plans. Each of the executives has agreed not to become employed by a microticket leasing company that competes with us for the twelve months following any termination.

A change in control is defined more specifically in each of these agreements, but it generally means one of the following:

the acquisition by any person, entity or group of beneficial ownership of 50% or more of our common stock or of the voting power entitled to vote in the election of our directors;

members of our Board of Directors at the date of the agreements ceasing to make up the majority of the Board, except where the new members of the Board are approved by majority vote of the Board at the time;

approval by our stockholders (or, if applicable, by a bankruptcy judge) of a merger, reorganization or consolidation, unless more than 60% of the common stock and voting power of the company resulting from the transaction continue to be owned by stockholders who were the owners of such stock before the transaction; or

approval by our stockholders (or, if applicable, a bankruptcy judge) of a complete liquidation or dissolution of the company or the sale of all or substantially all of our assets.



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Each of the above named executive officers entered into amendments to their respective employment agreements with the Corporation in December 2008 in order to clarify the timing of certain of the payments that could be made thereunder, for the purpose of complying with newly applicable requirements of Section 409A of the Internal Revenue Code. The Compensation and Benefits Committee does not consider these amendments to be material.

The Compensation and Benefits Committee believes that these employment agreements are in our best interests and in the best interests of our shareholders as they provide the executives with the proper incentives to ensure that they fully cooperate with any new ownership pending a change in control event. In addition, they promote the stability and continuity of the senior management team at other times. The committee reviews these agreements annually to ensure that they are appropriate and adequate for each of the executives covered.

**PROPOSAL 1**

**ELECTION OF DIRECTORS**

The MicroFinancial Board currently consists of 7 persons. The MicroFinancial Board is divided into three classes, with each class serving staggered terms of three years, so that only one class is elected in any one year. Two directors are to be elected at the Special Meeting to serve until the 2012 annual meeting and until their successors are elected and have qualified. The nominees for this class of directors are Brian E. Boyle and Alan J. Zakon. A director is elected by a plurality of votes of the shares of Common Stock present in person or represented by proxy and entitled to vote at the Special Meeting when there is a quorum. Each of the nominees for director is presently a director of MicroFinancial. They have consented to being named a nominee in this proxy statement and have agreed to serve as a director if elected at the Special Meeting. In the event that the nominees are unable to serve, the persons named in the proxy have discretion to vote for other persons if those other persons are designated by the MicroFinancial Board. The MicroFinancial Board has no reason to believe that the nominees will be unavailable for election.

**THE MICROFINANCIAL BOARD RECOMMENDS  
A VOTE FOR THE NOMINEES FOR ELECTION AS DIRECTORS.**

**Nominees for Director**

**Director, Age and  
Committee Membership**

**Principal Occupation and  
Other Information**

*Terms To Expire in 2012,  
If Elected*

Brian E. Boyle, 61  
Chairman, Nominating and Corporate  
Governance Committee; Audit  
Committee; Compensation and  
Benefits Committee; Credit Policy  
Committee; Strategic Planning  
Committee

Brian E. Boyle, the Chief Executive Officer of the Corporation from 1985 to 1987 and Chairman of the MicroFinancial Board from 1985 to 1995, has served as a Director of the Corporation or its predecessor since 1985 and has been a member of the Audit Committee and the Compensation Committee since 1997, the Chairman of the Nominating and Corporate Governance Committee since January 2004; a member of the Credit Policy Committee since January 2005; and a member of the Strategic Planning Committee since March 2006. He was the Vice Chairman and a Director of Boston Communications Group, Inc. ( Boston Communications ), a Boston-based provider of call processing to the global wireless industry, from 1995 through 2007. He also served as Chairman of GoldK, Inc. from 1999 to March 2003,

and was the Chief Executive Officer of GoldK, Inc. from 1999 until November 2002. Prior to joining Boston Communications, Dr. Boyle was the Chairman and Chief Executive Officer of Credit Technologies, Inc., a Massachusetts-based provider of credit decision and customer acquisition software, from 1989 to 1993. Dr. Boyle is also a director of several private companies. Dr. Boyle earned his A.B. in Mathematics from Amherst College and a B.S. in Electrical Engineering and Computer Science, an M.S. in Operations Research, an E.E. in Electrical Engineering and Computer Science and a Ph.D. in Operations Research, all from the Massachusetts Institute of Technology.

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**Director, Age and  
Committee Membership**

**Principal Occupation and  
Other Information**

Alan J. Zakon, 73  
Chairman, Compensation and  
Benefits Committee; Nominating and  
Corporate Governance Committee;  
Strategic Planning Committee

Alan J. Zakon has served as a Director of the Corporation since 1988, on the Compensation and Benefits Committee since 1997 and its Chairman since January 2005 and on the Nominating and Corporate Governance Committee since January 2004 and the Strategic Planning Committee since March 2006. Dr. Zakon served as Managing Director of Bankers Trust Corporation from 1989 to 1995 where he was Chairman of the Strategic Policy Committee. Dr. Zakon is a Director and a member of the Audit Committee of Arkansas Best Corporation, a nationwide commercial transportation and trucking company. Dr. Zakon holds a B.A. from Harvard University, an M.S. in Industrial Management from the Sloan School at the Massachusetts Institute of Technology and a Ph.D. in Economics and Finance from the University of California at Los Angeles.

**Continuing Directors**

*Terms Expiring in 2010*  
Peter R. Bleyleben, 56  
Credit Policy Committee

Peter R. Bleyleben serves as Non-Executive Chairman of the Board of Directors of the Corporation and on the Credit Policy Committee since January 2005. He served as President, Chief Executive Officer and Director of the Corporation or its predecessor since June 1987 until January 2002, and Chief Executive Officer until October 2002. He is also a director of Nimbit, Inc., a privately held company, and serves on the board of Common Angels, a membership based angel financing organization. He was a director of UpToDate in Medicine, Inc., a privately held company, until its sale in 2008. Before joining the Corporation, Dr. Bleyleben was Vice President and Director of the Boston Consulting Group, Inc. ( BCG ) in Boston. Dr. Bleyleben earned an M.B.A. with distinction and honors from the Harvard Business School, an M.B.A. and a Ph.D. in Business Administration and Economics, respectively, from the Vienna Business School in Vienna, Austria and a B.S. in Computer Science from the Vienna Institute of Technology.

John W. Everets, 62  
Chairman, Strategic Planning  
Committee

John W. Everets has been chairman of Yorkshire Capital LLC since 2006. Mr. Everets was Chairman of the Board and Chief Executive Officer of HPSC, Inc. from 1993 through January 2006. HPSC was acquired by General Electric Healthcare Financial Services in 2004. Established in 1974, HPSC was a publicly-owned, non-bank specialty finance company providing leasing and healthcare equipment financing on a nationwide basis. Previous to his becoming CEO of HPSC, Mr. Everets was Chairman of the Board and Chief Executive Officer of T.O. Richardson Co., Inc., an investment management company. He was also Executive Vice President and Director of Advest, Inc., an investment banking firm, from 1977 to January 1990, as well as Chairman of Advest Credit Corp., both subsidiaries of Advest Group, Inc. Mr. Everets

was Vice Chairman of the Connecticut Development Authority and Chairman of the Loan Committee of this \$1.8 billion quasi-government agency. He is a director of the Eastern Company, and serves as the chair of its audit committee and a member of its compensation committee. He is also a director of Financial Security Assurance Holdings Ltd., and a member of its audit committee.

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**Director, Age and  
Committee Membership**

**Principal Occupation and  
Other Information**

Richard F. Latour, 55

Richard F. Latour has served as President, Chief Executive Officer, Treasurer, Clerk and Secretary of the Corporation since October 2002 and as President, Chief Operating Officer, Chief Financial Officer, Treasurer, Clerk and Secretary, as well as a director of the Corporation, since February 2002. From 1995 to January 2002, he served as Executive Vice President, Chief Operating Officer, Chief Financial Officer, Treasurer, Clerk and Secretary. From 1986 to 1995 Mr. Latour served as Vice President of Finance and Chief Financial Officer. Prior to joining the Corporation, Mr. Latour was Vice President of Finance with Trak Incorporated, an international manufacturer and distributor of consumer goods, where he was responsible for all financial and operational functions. Mr. Latour earned a B.S. in accounting from Bentley College in Waltham, Massachusetts.

*Terms Expiring in 2011*

Torrence C. Harder, 65  
Chairman, Credit Policy Committee;  
Audit Committee; Strategic Planning  
Committee

Torrence C. Harder has served as a Director of the Corporation since 1986, served as Chairman of the Credit Policy Committee since January 2005, and has been a member of the Audit Committee since 1997 and of the Strategic Planning Committee since March 2006. He has been the President and Director of Harder Management Company, Inc., a registered investment advisory firm, since its establishment in 1971. He has also been the President and Director of Entrepreneurial Ventures, Inc., a private equity investment firm, since its founding in 1986. Mr. Harder is a Director of RentGrow, Inc., Command Credit Corporation and MindEdge, Inc., all privately held companies. Mr. Harder earned an M.B.A. from the Wharton School of the University of Pennsylvania, and a B.A. with honors from Cornell University.

Fritz von Mering, 56  
Chairman, Audit Committee;  
Compensation and Benefits  
Committee; Nominating and  
Corporate Governance Committee

Fritz von Mering has served as a Director of the Corporation and a member of the Audit Committee since 2004, Chairman of the Audit Committee since January 2005, and a member of the Compensation and Benefits Committee and the Nominating and Corporate Governance Committee since January 2005. Mr. von Mering is currently managing director of Miles River Management, a strategic planning and financial management consultancy. He is also a member of the board of directors of Syniverse Holdings, Inc., and serves on its audit committee and its nominating and corporate governance committees. From 1989 to 2006, he held various roles at Boston Communications, including Chief Operating Officer, Vice President of Corporate Development, and Chief Financial Officer, and served on the Board of Boston Communications through March 2007. Prior to joining Boston Communications, Mr. von Mering was the Chief Financial Officer of Massachusetts Gas & Electric from 1986 to 1989. Before joining Massachusetts Gas & Electric, Mr. von Mering was regional vice president and general manager for Metromedia's paging division from 1980 to 1986. Prior to Metromedia, Mr. von Mering held various positions at Coopers & Lybrand, where he earned his C.P.A. Mr. von Mering earned his B.S. in Accounting from Boston College and an M.B.A from Babson College.



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**PROPOSAL 2**

**RATIFICATION OF THE SELECTION OF  
MICROFINANCIAL S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The selection of Vitale Caturano & Company, P.C. ( Caturano ) to serve as independent auditors of MicroFinancial for the current fiscal year ending December 31, 2009, will be submitted to the stockholders of the Corporation for ratification at the Special Meeting. Although ratification is not legally required, the Corporation is submitting the appointment of Caturano to stockholders as a matter of good corporate governance. If the ratification is not approved, then the Audit Committee of the Corporation s Board of Directors will reconsider the appointment. Representatives of Caturano will be present at the Special Meeting, will have the opportunity to make a statement if they so desire and will be available to answer appropriate questions.

Caturano has advised MicroFinancial that neither it nor any of its members has any direct financial interest in MicroFinancial as a promoter, underwriter, voting trustee, director, officer or employee. All professional services rendered by Caturano during the year ended December 31, 2008 were furnished at customary rates.

Effective May 1, 2009, Caturano s name will be changed to Caturano and Company, P.C.

The ratification of the selection of independent auditors requires the affirmative vote of a majority of the outstanding Common Stock, present in person or represented by proxy, and entitled to vote thereon at the Special Meeting when there is a quorum.

**THE MICROFINANCIAL BOARD RECOMMENDS A VOTE FOR THIS PROPOSAL  
WHICH IS IDENTIFIED AS PROPOSAL 2 ON THE ENCLOSED PROXY.**

**Fees to Independent Registered Public Accounting Firm for Fiscal 2008 and 2007**

*Audit Fees.* The aggregate fees billed by Caturano for professional services rendered for the audit of the Corporation s annual financial statements for the fiscal year ended December 31, 2008 and for the reviews of the financial statements included in the Corporation s Quarterly Reports on Form 10-Q for that fiscal year and for services provided in connection with statutory or regulatory filings or engagements were \$262,700.

The aggregate fees billed by Caturano for professional services rendered for the audit of the Corporation s annual financial statements for the fiscal year ended December 31, 2007 and for the reviews of the financial statements included in the Corporation s Quarterly Reports on Form 10-Q for that fiscal year and for services provided in connection with statutory or regulatory filings or engagements were \$272,095.

*Audit-Related Fees.* The aggregate fees billed by Caturano for assurance and related services reasonably related to employee benefit plan audits and not reported under the foregoing Audit Fees section rendered to the Corporation for the fiscal year ended December 31, 2008 were \$14,988.

The aggregate fees billed by Caturano for assurance and related services reasonably related to employee benefit plan audits and not reported under the foregoing Audit Fees section rendered to the Corporation for the fiscal year ended December 31, 2007 were \$13,986.

*Tax Fees.* The aggregate fees billed by Caturano for professional services rendered to the Corporation related to tax compliance, tax advice and tax planning for the fiscal year ended December 31, 2008 were \$5,000, which includes review of the annual tax returns.

The aggregate fees billed by Caturano for professional services rendered to the Corporation related to tax compliance, tax advice and tax planning for the fiscal year ended December 31, 2007 were \$5,000, which includes review of the annual returns.

*All Other Fees.* There were no other fees billed by Caturano for services rendered to the Corporation, other than the services described under *Audit Fees*, *Audit-Related Fees*, and *Tax Fees* for the fiscal years ended December 31, 2008 and December 31, 2007.



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**Approval by Audit Committee**

The charter of the Audit Committee requires that the Committee approve in advance any audit or permissible non-audit engagement or relationship between the Corporation and the independent auditors. The Committee has delegated to the Chairman of the Audit Committee the authority to approve in advance all audit-related or non-audit services to be provided by the independent auditor if presented to the full Committee at the next regularly scheduled meeting of the Audit Committee.

**OTHER MATTERS**

Management does not know of any matters which will be brought before the Special Meeting other than those specified in the Notice of Special Meeting of Stockholders. However, if any other matters properly come before the Special Meeting, the persons named in the form of proxy, or their substitutes, will vote on such matters in accordance with their best judgment.

**2010 STOCKHOLDER PROPOSALS**

Proposals of stockholders to be included in the proxy statement and form of proxy for the Corporation's 2010 annual meeting of stockholders must be received by December 17, 2009. Stockholders who wish to make a proposal at the aforementioned meeting of stockholders, other than one that will be included in the Corporation's proxy materials, must notify the Corporation no later than January 16, 2010 of such a proposal. If a stockholder makes such a timely notification, the proxies solicited by the MicroFinancial Board will confer discretionary voting authority on the persons named as attorneys in the proxy and such persons may exercise discretionary voting authority under circumstances consistent with the rules of the Securities and Exchange Commission. If a stockholder who wishes to present a proposal fails to notify the Corporation by January 16, 2010, the stockholder shall not be entitled to present the proposal at the meeting. Notwithstanding the failure to timely notify the Corporation, if the proposal is brought before the meeting, then the proxies solicited by the MicroFinancial Board will confer discretionary voting authority on the persons named as attorneys in the proxy.

Proposals should be mailed to Richard F. Latour, Clerk of MicroFinancial, at 10M Commerce Way, Woburn, Massachusetts 01801.

**FINANCIAL STATEMENTS**

The financial statements of the Corporation are contained in the Corporation's Annual Report on Form 10-K for its fiscal year ended December 31, 2008 that was filed with the Securities and Exchange Commission on March 31, 2009, a copy of which is included with this proxy statement. Such report and the financial statements contained therein are not to be considered as a part of this soliciting material.

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**MISCELLANEOUS**

All the expenses of preparing, assembling, printing and mailing the material used in the solicitation of proxies by the Board will be paid by the Corporation. In addition to the solicitation of proxies by use of the mails, officers and regular employees of the Corporation may solicit proxies on behalf of the Board by telephone, telegram or personal interview, the expenses of which will be borne by the Corporation. Arrangements may also be made with brokerage houses and other custodians, nominees and fiduciaries to forward soliciting materials to the beneficial owners of stock held of record by such persons at the expense of the Corporation.

Submitted by Order of the Board of Directors,

RICHARD F. LATOUR

*Clerk*

Woburn, Massachusetts

April 16, 2009

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0PROXYMICROFINANCIAL INCORPORATEDTHIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF THE CORPORATIONFOR THE SPECIAL MEETING OF STOCKHOLDERS IN LIEU OF ANNUAL MEETINGTO BE HELD ON MAY 14, 2009, OR ANY ADJOURNMENTS THEREOF.THE SHARES REPRESENTED HEREBY WILL BE VOTED AS DIRECTED BY THEIR STOCKHOLDER(S).The undersigned stockholder of MicroFinancial Incorporated (the Corporation ) hereby appoints Peter R. Bleyleben and Richard F. Latour (each a Proxy Agent ), jointly and severally with full power of substitution to each as proxies for and on behalf of the undersigned, to attend the Special Meeting of Stockholders in Lieu of Annual Meeting of MicroFinancial Incorporated, to be held at Edwards Angell Palmer & Dodge LLP, 111 Huntington Avenue, Boston, Massachusetts on Thursday, May 14, 2009, at 4:00 P.M., or any adjournments thereof, and to vote as directed below all stock of the Corporation which the undersigned would be entitled to vote if personally present.By acceptance, each Proxy Agent agrees that this Proxy will be voted in the manner directed by the stockholder giving this Proxy. If no direction is specified, the Proxy will be voted FOR the election of the nominees for Director for three-year terms and FOR the ratification of the appointment of Vitale, Caturano & Company, P.C. as the Corporation s independent registered public accounting firm for the year ending December 31, 2009, each as set forth on the reverse. Discretionary authority is hereby conferred as to all other matters which may properly come before the meeting or any adjournments thereof. This Proxy, if properly executed and delivered, will revoke all other Proxies.THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED STOCKHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE NOMINEES FOR DIRECTOR FOR THREE-YEAR TERMS AND FOR THE RATIFICATION OF THE APPOINTMENT OF VITALE, CATURANO&COMPANY, P.C. AS THE CORPORATION S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THEYEAR ENDING DECEMBER 31, 2009.CONTINUED, AND TO BE SIGNED, ON REVERSE SIDE

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SPECIAL MEETING OF STOCKHOLDERS IN LIEU OF ANNUAL MEETING  
OF MICROFINANCIAL INCORPORATED Wednesday, May 14, 2009  
NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIAL: The Notice of Meeting, proxy statement and annual report to shareholders are available at [www.microfinancial.com/proxyinfo/](http://www.microfinancial.com/proxyinfo/) Please sign, date and mail your proxy card in the envelope provided as soon as possible Please detach and mail in the envelope provided. 20230000000000001000 9051409

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF DIRECTORS AND FOR PROPOSAL 2. PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE x FOR AGAINST ABSTAIN

1. Election of the following directors for three-year terms.  
2. Ratification of the appointment by the Board of Directors of Vitale, Caturano & Company, P.C. as independent registered public accounting firm of the Corporation for the year ending O Brian E. Boyle O December 31, 2009. Alan J. Zakon

WITHHOLD AUTHORITY THE BOARD OF DIRECTORS OF THE CORPORATION RECOMMENDS A VOTE FOR ALL NOMINEES FOR THE ELECTION OF THE NOMINEES FOR DIRECTOR FOR THREE-YEAR TERMS AND FOR THE RATIFICATION OF THE APPOINTMENT OF VITALE, FOR ALL EXCEPT CATURANO & COMPANY, P.C. AS THE CORPORATION'S INDEPENDENT REG-(See instructions below) ISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDING DECEMBER 31, 2009. PLEASE MARK, DATE, SIGN AND MAIL THIS PROXY CARD IN THE ACCOMPANYING ENVELOPE. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES.

INSTRUCTIONS: To withhold authority to vote for any individual nominee(s), mark FOR ALL EXCEPT and fill in the circle next to each nominee you wish to withhold, as shown here: MARK HERE IF YOU PLAN TO ATTEND THE MEETING. To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method.

Signature of Stockholder Date: Signature of Stockholder Date: Note: This proxy must be signed exactly as the name appears hereon. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.