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MICROFINANCIAL INC  
Form DEF 14A  
April 18, 2002

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

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Check the appropriate box:

- Preliminary Proxy Statement
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to sec.240.14a-11(c) or sec.240.14a-12
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Microfinancial Incorporated  
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement)

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microfinancial LOGO

950 Winter Street  
Waltham, Massachusetts 02451

April 18, 2002

Dear Stockholder:

I am pleased to invite you to the 2002 Special Meeting of Stockholders in Lieu of Annual Meeting of MicroFinancial Incorporated ("MicroFinancial"), which will be held on Thursday, May 16, 2002, at 4:30 p.m., at Edwards & Angell, LLP, 101 Federal Street, Boston, Massachusetts.

The accompanying Notice of Special Meeting of Stockholders and proxy statement contain 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, the ratification of the election of one director for a two-year term and the ratification of the selection of independent auditors for 2002.

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,

/s/ PETER R. BLEYLEBEN  
PETER R. BLEYLEBEN  
Chairman and Chief Executive Officer

MICROFINANCIAL INCORPORATED  
950 WINTER STREET  
WALTHAM, MASSACHUSETTS 02451

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS  
IN LIEU OF ANNUAL MEETING

APRIL 18, 2002

The Special Meeting of Stockholders in Lieu of Annual Meeting of MicroFinancial Incorporated, a Massachusetts corporation ("MicroFinancial"), will be held Thursday, May 16, 2002, at 4:30 p.m., at Edwards & Angell, LLP, 101 Federal Street, Boston, Massachusetts for the purpose of considering and voting upon:

1. The election of two directors for three-year terms.
2. The ratification of the election of one director for a two-year term.
3. The ratification of the selection of Deloitte & Touche LLP as independent auditors for MicroFinancial for 2002.
4. 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

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vote at, the Special Meeting is the close of business on April 11, 2002. MicroFinancial's transfer books will not be closed.

By Order of the Board of Directors,

/s/ RICHARD F. LATOUR  
RICHARD F. LATOUR  
Clerk

Waltham, Massachusetts  
April 18, 2002

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.

MICROFINANCIAL INCORPORATED  
950 WINTER STREET  
WALTHAM, MASSACHUSETTS 02451  
TELEPHONE 781-890-0177

-----  
2002 SPECIAL MEETING OF STOCKHOLDERS  
IN LIEU OF ANNUAL MEETING  
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PROXY STATEMENT

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 16, 2002. This proxy statement and the enclosed proxy are first being sent to stockholders on or about April 18, 2002. 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 Proposal No. 1 and FOR Proposal No. 2.

The record date for determining stockholders entitled to vote at the Special Meeting is the close of business on April 11, 2002. On this date, there were outstanding and entitled to vote 12,911,532 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.

Management is not aware of any matter to be considered at the Special Meeting other than those referred to in this proxy statement. If any other business should properly come before the Special Meeting, the persons named in the proxy will vote according to their best judgment.

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## VOTING PROCEDURES

The affirmative vote of a majority of the shares of Common Stock represented at the Special Meeting and entitled to vote is required to ratify the election of Mr. Latour for a two-year term and to ratify the selection of auditors. 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 or against, but abstentions may not be specified. 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 or entitled to vote at the Special Meeting. Abstentions are counted for this purpose. Since a broker's authority is not limited with respect to Proposal Nos. 1, 2 and 3, MicroFinancial does not expect to receive any broker non-votes with respect to the Special Meeting.

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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## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of February 28, 2002 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 12,821,946 shares of Common Stock outstanding as of such date (not including treasury stock), each director and executive officer of the Corporation and all directors and executive officers of the Corporation as a group. Each person named has sole voting and investment power with respect to the shares indicated, except as otherwise stated in the notes to the table.

NAME AND ADDRESS OF BENEFICIAL OWNER -----	NUMBER OF SHARES BENEFICIALLY OWNED (1) -----	PERCENTAGE OUTST OF COMMON STO -----
Peter R. Bleyleben(2)..... 66 Norfolk Road Chestnut Hill, Massachusetts 02464	1,501,610	11.62%
Brian E. Boyle(3)..... 11 Whispering Lane Weston, Massachusetts 02493	1,491,700	11.59%
Torrence C. Harder(4)..... Walden Woods, 657 Sudbury Road Concord, Massachusetts 01742-4321	1,641,729	12.75%
Wasatch Advisors, Inc..... 150 Social Hall Avenue	1,454,899	11.35%

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Salt Lake City, Utah 84111

Key Colony Fund, L.P.(5)..... 10825 Financial Centre Parkway Suite 100 Little Rock, Arkansas 72211	653,500	5.10%
Jeffrey P. Parker(6)..... 253 Meadowbrook Road Weston, Massachusetts 02493	390,840	3.04%
Alan J. Zakon(7)..... 32 Cardinal Lane Ocean Reef Club Key Largo, Florida 33037	90,000	*
Richard F. Latour(8)..... Horse Leg Hill Road Eaton, New Hampshire 03832	413,550	3.19%
John Plumlee(9)..... 97 By-Pass 28 Derry, New Hampshire 03038	58,000	*
Carol Salvo(10)..... 3 Woodridge Road Medfield, Massachusetts 02052	85,000	*
Kerry Lincoln(11)..... 11 Stillbrook Lane Mansfield, Massachusetts 02048	53,100	*
All directors and executive officers as a group (10 persons).....	5,731,529	42.61%

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\* Less than 1%

(1) 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.

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(2) Includes 100,000 shares of Common Stock issuable upon the exercise of options issued to Dr. Bleyleben which vest on or before May 1, 2002.

(3) Includes 50,000 shares of Common Stock issuable upon the exercise of options issued to Dr. Boyle which vest on or before May 1, 2002 and 40,000 shares of Common Stock held in the Brian E. Boyle Charitable Foundation, over which Dr. Boyle retains sole voting and investment power as the sole trustee and for which Dr. Boyle disclaims beneficial ownership.

(4) Includes 50,000 shares of Common Stock issuable upon the exercise of options issued to Mr. Harder which vest on or before May 1, 2002; 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;

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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.

- (5) Key Colony Fund, L.P., Lieblong Transport, Inc., Alex R. Lieblong IRA, Key Colony Management LLC, Alex R. Lieblong, Jason R. Lieblong and Paul Spann filed a Schedule 13D with the Securities and Exchange Commission reporting that they held as a group 653,500 shares of Common Stock. In the Schedule 13D, Key Colony Fund, L.P. reported that it had sole voting and investment power over 495,000 shares held directly by it; Lieblong Transport, Inc. reported that it had sole voting and investment power over 5,000 shares held directly by it; Alex R. Lieblong IRA reported that it had sole voting and investment power over 4,100 shares held directly by it; Key Colony Management LLC reported that it had sole voting and investment power over the shares held by the Fund; Alex R. Lieblong reported that he had sole and shared voting and investment power over an aggregate of 629,300 shares held directly by him as well as the shares held by the Fund, Transport and the IRA; Jason R. Lieblong reported that he had sole voting and investment power over 15,300 shares held directly by him; and Paul Spann reported that he had sole voting and investment power over 8,900 shares held directly by him. All members of the group reported a business address as set forth in the table above.
- (6) Includes 50,000 shares of Common Stock issuable upon the exercise of options granted to Mr. Parker which vest on or before May 1, 2002; and 340,840 shares of Common Stock owned by The Parker Family Limited Partnership over which Mr. Parker retains shared voting and investment power through his ownership in, and position as Director of, the general partner of the Parker Family Limited Partnership.
- (7) Includes 50,000 shares of Common Stock issuable upon the exercise of options granted to Mr. Zakon which vest on or before May 1, 2002.
- (8) Includes 148,000 shares of Common Stock issuable upon the exercise of options granted to Mr. Latour which vest on or before May 1, 2002.
- (9) Consists of 58,000 shares of Common Stock issuable upon the exercise of options granted to Mr. Plumlee which vest on or before May 1, 2002.
- (10) Includes 70,000 shares of Common Stock issuable upon the exercise of options granted to Ms. Salvo which vest on or before May 1, 2002; and 15,000 shares of Common Stock held jointly by Ms. Salvo and her husband over which Ms. Salvo shares voting and investment power with her husband.
- (11) Includes 48,000 shares of Common Stock issuable upon the exercise of options granted to Ms. Lincoln which vest on or before May 1, 2002.

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### PROPOSAL 1

#### ELECTION OF DIRECTORS

As of the date of this proxy statement, the MicroFinancial Board consists of 6 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

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until the 2005 Special Meeting and until their successors are elected and have qualified. The nominees for this class of directors are Torrence C. Harder and Jeffrey P. Parker. 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. The nominees for director are presently directors 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

NOMINEE, AGE AND  
COMMITTEE MEMBERSHIP

PRINCIPAL OCCUPATION AND  
OTHER INFORMATION

Torrence C. Harder, 58  
Chairman, Compensation  
Committee; Audit Committee

Torrence C. Harder has served as a Director of the Corporation since 1986, served as Chairman of the Compensation Committee since 1997 and has been a member of the Audit Committee since 1997. He has been the President and Director of Harder Management Corporation, 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, and member of the Compensation Committee of the Board of Directors of, Lightbridge, Inc., a wireless industry software services provider. He is also a director of RentGrow, Inc., Trade Credit Corporation and UpToDate in Medicine, Inc. 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.

Jeffrey P. Parker, 58

Jeffrey P. Parker has served as a Director of the Corporation since 1992. He is the founder and has served since 1997 as the Chief Executive Officer of CCBN.COM, a world wide web information services company based in Boston. He is also the founder and has served since 1991 as the managing director of Private Equity Investments, a venture capital firm focusing on start-up and early stage companies. Mr. Parker is a Director of CCBN.COM, Pacific Sun Industries and Vintage Partners. Mr. Parker earned a B.A., an M.A. in Engineering and an M.B.A. from Cornell University.

PROPOSAL 2

RATIFICATION OF THE ELECTION OF A DIRECTOR FOR A TWO-YEAR TERM

Pursuant to Massachusetts law, and the Amended and Restated By-laws of MicroFinancial, on February 21, 2002 the MicroFinancial Board voted to expand the Board from five to six members and elected Richard F. Latour to fill the

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ensuing vacancy. In accordance with Massachusetts law, the MicroFinancial Board placed Mr. Latour in the class of directors serving until 2004. The election of Mr. Latour to serve until the 2004 Special Meeting and until his successor is elected and has qualified is to be ratified by the shareholders at the Special Meeting. The ratification of the election of Mr. Latour will be by a majority 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.

THE MICROFINANCIAL BOARD RECOMMENDS  
A VOTE "FOR" THE RATIFICATION OF THE ELECTION OF MR. LATOUR AS A DIRECTOR.

NOMINEE FOR DIRECTOR

NOMINEE, AGE AND  
COMMITTEE MEMBERSHIP  
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PRINCIPAL OCCUPATION AND  
OTHER INFORMATION  
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Richard F. Latour, 48

Richard F. Latour is President, Chief Operating Officer, Chief Financial Officer, Treasurer, Clerk and Secretary of the Company. 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 Company, Mr. Latour was Vice President of Finance for eleven years 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.

CONTINUING DIRECTORS

DIRECTOR, AGE AND  
COMMITTEE MEMBERSHIP  
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PRINCIPAL OCCUPATION AND  
OTHER INFORMATION  
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Terms Expiring in 2003

Brian E. Boyle, 54  
Audit Committee;  
Compensation 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. He is currently the Vice Chairman and a Director of Boston Communications Group, Inc. ("Communications"), a Boston-based provider of call processing to the global wireless industry. He has also served as Chairman and Chief Executive Officer of GoldK, Inc. since 1999. Prior to joining 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. From 1995 to 1999 he was a Director of Saville Systems, a global telecommunications billing software company, with its United States headquarters in Burlington, Massachusetts, and served as a member of its Compensation



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Committee from 1995 to October 1999.

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DIRECTOR, AGE AND  
COMMITTEE MEMBERSHIP

PRINCIPAL OCCUPATION AND  
OTHER INFORMATION

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Dr. Boyle is also a director of several private companies. Dr. Boyle earned his A.B. in Mathematics and Economics 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.

Alan J. Zakon, 66  
Chairman, Audit Committee;  
Compensation Committee

Alan J. Zakon has served as a Director of the Corporation since 1988 and has served as Chairman of the Audit Committee since 1997. Since 1995, he has been the Vice Chairman and a Director, and since November 1997, Chairman of the Executive Committee, of Scientific Games Corporation, a New York-based global gaming and simulcasting company. 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 of Arkansas-Best Freight 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 Sloane School at the Massachusetts Institute of Technology and a Ph.D. in Economics and Finance from the University of California at Los Angeles.

Term Expiring in 2004

Peter R. Bleyleben, 49

Peter R. Bleyleben serves as Chairman of the Board of Directors and Chief Executive Officer of the Corporation. He served as President, Chief Executive Officer and Director of the Corporation or its predecessor since June 1987 until January 2002. Before joining the Corporation, Dr. Bleyleben was Vice President and Director of the Boston Consulting Group, Inc. ("BCG") in Boston. During his more than eight years with BCG, Dr. Bleyleben focused his professional strategic consulting practice on the financial services and telecommunications industries. Prior to joining BCG, 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.

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CERTAIN INFORMATION REGARDING THE MICROFINANCIAL BOARD

MEETINGS AND COMMITTEES

During 2001, the MicroFinancial Board met four times and acted by unanimous

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written consent three times. The committees of the Board met as follows: the Compensation Committee met one time and the Audit Committee met three times. In 2001, all MicroFinancial Board members attended 75% of the aggregate of the meetings of the MicroFinancial Board and its committees on which they served.

The Audit Committee oversees the scope of MicroFinancial's internal auditing, the independence of the outside auditors, the adequacy of MicroFinancial's system of internal accounting controls and procedures, and the adequacy of management's action with respect to recommendations thereon by MicroFinancial's auditors. MicroFinancial is required by the rules of the NYSE 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 was included as an appendix to last year's proxy statement. In addition, the MicroFinancial Board has determined that all of the members of the Audit Committee satisfy the independence and other applicable requirements of the NYSE's listing standards.

The Compensation Committee is responsible for compensation and benefit plans (including management bonuses).

The MicroFinancial Board has no nominating committee, as the MicroFinancial Board as a whole studies the qualifications and recommends to the stockholders the election of MicroFinancial directors. A stockholder may nominate a person for election as a director by complying with Section 3.1 of the MicroFinancial By-laws, which provides that advance notice of a nomination must be delivered to MicroFinancial and must contain the name and certain information concerning the nominee and the stockholders who support the nominee's election. A copy of this By-law provision may be obtained by writing to Richard F. Latour, Clerk of MicroFinancial, at 950 Winter Street, Waltham, Massachusetts 02451.

### COMPENSATION OF DIRECTORS

The MicroFinancial Board is comprised of six Directors, two of whom, Peter Bleyleben and Richard F. Latour, are salaried employees of the Corporation who receive no additional compensation for services rendered as Directors. The members of the MicroFinancial Board who were not employees of the Corporation ("Non-Employee Directors") received stock options to purchase 50,000 shares of Common Stock in 1999 and stock options to purchase 50,000 shares of Common Stock in 2000 for their service on the MicroFinancial Board. In 2001, the Non-Employee Directors each received stock options to purchase 25,000 shares of Common Stock. In February 2002, the options granted in 2001 were voluntarily cancelled, and the Directors received new options to purchase 45,000 shares of Common Stock. Directors also are reimbursed for out-of-state travel expenses incurred in connection with attendance at meetings of the MicroFinancial Board and committees thereof. In addition, the Corporation pays for health care insurance for each Non-Employee Director other than Mr. Harder.

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### COMPENSATION OF EXECUTIVE OFFICERS

#### EXECUTIVE COMPENSATION

The following table sets forth the compensation of (i) the Chief Executive Officer of the Corporation, (ii) the four most highly compensated executive officers who were serving as executive officers of the Corporation as of December 31, 2001 (collectively, the "Named Executive Officers"), in each case for the years ended December 31, 2001, 2000 and 1999. Determination of the most highly compensated executive officers is based upon compensation for the Corporation's fiscal year ended December 31, 2001 and does not necessarily reflect the most highly compensated executive officers for the Corporation's

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fiscal years ended December 31, 2000 and 1999.

### SUMMARY COMPENSATION TABLE (1)

NAME AND PRINCIPAL POSITION -----	YEAR ----	ANNUAL COMPENSATION		
		SALARY	BONUS	ALL OTHER COMPENSATION
PETER R. BLEYLEBEN.....	2001	\$277,116	\$469,997	\$97,636 (3)
Chairman, Chief Executive Officer and Director	2000	\$270,000	\$436,873	\$72,004
	1999	\$260,000	\$439,313	\$67,505
RICHARD F. LATOUR.....	2001	\$230,000	\$306,643	\$54,856 (4)
President, Chief Operating Officer, Chief Financial	2000	\$220,000	\$278,042	\$53,515
Officer, Treasurer, Clerk, Secretary and Director	1999	\$210,000	\$309,226	\$41,826
JOHN PLUMLEE.....	2001	\$165,000	\$ 73,753	\$19,456 (5)
Vice President, MIS	2000	\$155,769	\$ 63,819	\$20,888
	1999	\$148,558	\$ 57,034	\$21,357
CAROL SALVO.....	2001	\$135,000	\$ 73,753	\$ 4,098 (6)
Vice President, Legal	2000	\$115,269	\$ 63,819	\$ 4,701
	1999	\$103,462	\$ 51,052	\$ 4,494
KERRY LINCOLN.....	2001	\$115,000	\$ 56,913	\$ 3,137
Controller and Vice President, Accounting and Finance	2000	\$ 94,808	\$ 38,557	\$ 3,405
	1999	\$ 79,904	\$ 39,518	\$ 2,859

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(1) Columns required by the rules and regulations of the Securities and Exchange Commission that contain no entries have been omitted.

(2) Bonuses are paid over a three-year period, with one-third payable each year. The remaining two-thirds is subject to discretionary review by the Corporation and, therefore, does not vest to the employee. The bonus amount set forth for each fiscal year thus represents the amount actually paid for such fiscal year, plus amounts relating to the prior two fiscal years.

(3) Amounts for Dr. Bleyleben include: (a) contributions by the Corporation under the Corporation's 401(k) retirement/profit sharing plan in 2001 (\$3,200), 2000 (\$3,199) and 1999 (\$3,323); (b) split dollar life insurance premiums paid by the Corporation in 2001 (\$90,382), 2000 (\$65,259) and 1999 (\$56,634) (in the event of the death of Dr. Bleyleben, the Corporation is entitled to the cash value under such plan with the beneficiary receiving the life insurance portion thereof); and (c) executive disability insurance policy premiums paid by the Corporation in 2001 (\$4,054), 2000 (\$3,546) and 1999 (\$7,548).

(4) Amounts for Mr. Latour include: (a) contributions by the Corporation under the Corporation's 401(k) retirement/profit sharing plan in 2001 (\$3,200), 2000 (\$3,323) and 1999 (\$3,323); (b) split dollar life insurance premiums paid by the Corporation in 2001 (\$50,782), 2000 (\$49,318) and 1999 (\$34,917) (in

the event of the death of Mr. Latour, the Corporation is entitled to the cash

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value under such plan with the beneficiary receiving the life insurance portion thereof); (c) executive disability insurance policy premiums paid by the Corporation in 2001 (\$874), 2000 (\$874) and 1999 (\$3,033); and (d) the benefit to the executive of interest-free loans from the Corporation based on the applicable federal rate in effect on the date of issuance of each such loan in 1999 (\$553).

(5) Amounts for Mr. Plumlee include: (a) contributions by the Corporation under the Corporation's 401(k) retirement/profit sharing plan in 2001 (\$3,440), 2000 (\$4,111) and 1999 (\$3,733); (b) split dollar life insurance premiums paid by the Corporation in 2001 (\$15,000), 2000 (\$15,084) and 1999 (\$15,000) (in the event of the death of Mr. Plumlee, the Corporation is entitled to the cash value under such plan with the beneficiary receiving the life insurance portion thereof); (c) executive disability insurance policy premiums paid by the Corporation in 2001 (\$1,016), 2000 (\$1,016) and 1999 (\$1,016); and (d) the benefit to the executive of interest-free loans from the Corporation based on the applicable federal rate in effect on the date of issuance of each such loan, in 2000 (\$677) and 1999 (\$1,608).

(6) Amounts for Ms. Salvo include: (a) contributions by the Corporation under the Corporation's 401(k) retirement/profit sharing plan in 2001 (\$3,440), 2000 (\$3,090) and 1999 (\$2,476); (b) executive disability insurance policy premiums paid by the Corporation in 2001 (\$658), 2000 (\$630) and 1999 (\$604); and (d) the benefit to the executive of interest-free loans from the Corporation based on the applicable federal rate in effect on the date of issuance of each such loan, in 2000 (\$981) and 1999 (\$1,414).

(7) Amounts for Ms. Lincoln include: (a) contributions by the Corporation under the Corporation's 401(k) retirement/profit sharing plan in 2001 (\$2,667), 2000 (\$2,388) and 1999 (\$1,864); (b) executive disability insurance policy premiums paid by the Corporation in 2001 (\$470), 2000 (\$470) and 1999 (\$470); and (c) the benefit to the executive of interest-free loans from the Corporation based on the applicable federal rate in effect on the date of issuance of each such loan, in 2000 (\$546) and 1999 (\$525).

1998 EQUITY INCENTIVE PLAN

The following table indicates the aggregate options granted in 2001 to the Named Executive Officers:

OPTION/SAR GRANTS IN LAST FISCAL YEAR

NAME	NUMBER OF SECURITIES UNDERLYING OPTION/SARS GRANTED (#) (1)	INDIVIDUAL GRANTS		EXERCISE OR BASE PRICE (\$/SH)	EXPIRATION DATE	POTENTIAL VA ASSUMED RATES APPRECIATION F TERM (3)
		PERCENT OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN FISCAL YEAR (2)				
Peter R. Bleyleben...	0	N/A		N/A	N/A	N/A
Richard F. Latour....	90,000	16.4%		\$13.10	2/20/11	\$741,467
John Plumlee.....	40,000	7.3%		\$13.10	2/20/11	\$329,541
	30,000	5.5%		\$ 9.48	11/13/11	\$178,858
Carol Salvo.....	40,000	7.3%		\$13.10	2/20/11	\$329,541
	30,000	5.5%		\$ 9.48	11/13/11	\$178,858
Kerry Lincoln.....	40,000	7.3%		\$13.10	2/20/11	\$329,541
	30,000	5.5%		\$ 9.48	11/13/11	\$178,858

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(footnotes on following page)

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- (1) Stock options were granted under the Plan. No stock appreciation rights were awarded with these grants. The options first become exercisable, in five equal annual installments, beginning one year from the grant date, and have a ten-year term. If a change of control of MicroFinancial were to occur, the options would become immediately exercisable in full.
  - (2) The percentages in the table for the stock options granted in 2001 are based on a total of 550,000 stock options granted in 2001 to MicroFinancial employees, all of which were granted on the same material terms described in footnote (1) above.
  - (3) The dollar amounts under these columns represent the potential realizable value of each grant assuming that the market value of the Common Stock appreciates from the date of grant to the expiration of the option at annualized rates of 5% and 10%. These assumed rates of appreciation have been specified by the SEC for illustrative purposes only and are not intended to forecast future financial performance or possible future appreciation in the price of the Common Stock. The actual amount the executive officer may realize will depend on the extent to which the stock price exceeds the exercise price of the options on the date the option is exercised.

The following table indicates the aggregate option exercises in 2001 by the Named Executive Officers and fiscal year-end option values:

AGGREGATED OPTION EXERCISES IN FISCAL YEAR 2001  
AND FISCAL YEAR-END OPTION VALUES

NAME	SHARES ACQUIRED		NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SAR'S AT FISCAL YEAR-END (#)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR-END (\$)	
	ON EXERCISE	VALUE REALIZED	EXERCISABLE	UNEXERCISABLE	(1)	(2)
Peter R. Bleyleben.....	N/A	N/A	60,000	140,000	\$9,375	
Richard F. Latour.....	9,000	\$100,530	80,000	260,000	\$9,375	
John Plumlee.....	N/A	N/A	30,000	140,000	\$4,688	
Carol Salvo.....	N/A	N/A	30,000	140,000	\$4,688	
Kerry Lincoln.....	N/A	N/A	24,000	126,000	\$3,750	

- 
- (1) Value based on \$10.25, the closing price of the Common Stock on December 31, 2001, minus the exercise price.
  - (2) The value of unexercised in-the-money stock options at December 31, 2001 is presented to comply with regulations of the Securities and Exchange Commission. The actual amount realized upon exercise of stock options (if any) will depend upon the excess of the fair market value of the Common

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Stock over the exercise price at the time the stock option is exercised. There is no assurance that the values of unexercised stock options reflected in this table will be realized.

- (3) The exercise price of the following options exceeded the fair market value of the Common Stock on December 31, 2001: Mr. Bleyleben, 40,000 vested and 60,000 unvested options; Mr. Latour, 60,000 vested and 180,000 unvested options; Mr. Plumlee, 20,000 vested and 70,000 unvested options; Ms. Salvo, 20,000 vested and 70,000 unvested options; and Ms. Lincoln, 16,000 vested and 64,000 unvested options.

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### PROFIT SHARING PLAN AND DISCRETIONARY BOARD OF DIRECTOR BONUS PROGRAMS

The Corporation pays annual bonuses and makes profit sharing payments as determined by the Compensation Committee of the MicroFinancial Board. Each year the Compensation Committee indicates to the executive officers the percentage of the following year's pre-tax profits on which profit sharing plan payments will be based. Upon the conclusion of the audit of the prior year's financial results, the Compensation Committee determines the total percentage of pre-tax profits eligible for profit-sharing plan payments, and awards payments to Dr. Bleyleben and one other executive of the Corporation. To enhance long-term retention of these executives, only one-third of the amount awarded is paid at that point in time. The remaining two-thirds may be paid out over the next two years in the discretion of the Compensation Committee and are subject to separate annual approvals of the Compensation Committee.

### EMPLOYMENT AGREEMENTS

The Corporation has entered into Employment Agreements with Dr. Bleyleben and Mr. Latour for a three-year period commencing June 12, 1998, subject to automatic successive one-year renewals unless terminated pursuant to the terms thereof. In the event of a termination of the Employment Agreements by the Corporation without cause, or by Dr. Bleyleben or Mr. Latour for specified good reason, the Employment Agreements provide for three years of severance payments to Dr. Bleyleben and Mr. Latour, respectively, on the basis of their highest base salary during the employment period. In addition, Dr. Bleyleben and Mr. Latour would also be entitled to a prorated payment of base salary and bonus to the date of termination, and the acceleration of deferred compensation and accrued but unpaid amounts under the Corporation's bonus and/or profit sharing plans. Dr. Bleyleben's and Mr. Latour's current base salaries, respectively, are \$265,000 and \$230,000. The bonus for the current fiscal year will be determined by the MicroFinancial Board. If, in connection with a payment under their Employment Agreement, either Dr. Bleyleben or Mr. Latour shall incur 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, the Employment Agreements provide for gross-up payments to return them to the after-tax position they would have been in if no excise tax had been imposed. As used in each Employment Agreement, "for good reason" means the assignment to the executive of duties inconsistent with the executive's position, authority, duties or responsibilities; the failure by the Corporation to pay the agreed base salary and provide the executive with benefits; moving the executive to a location outside of the metropolitan Boston, Massachusetts area; and the failure by the Corporation to require a successor to assume all obligations under the Employment Agreement.

The Corporation has also entered into separate employment agreements with each of the remaining Named Executive Officers which are designed to provide an incentive to each executive to remain with the Corporation pending and following a Change in Control (as defined below). Each employment agreement has an initial

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term of one year following a Change in Control, with automatic extensions upon the expiration of the initial one-year term for successive one-month periods (such date and each annual anniversary thereof, the "Renewal Date"). 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. If the employment agreement is terminated by the MicroFinancial Board other than for cause, death or disability, or is terminated by the executive for specified good reason, the Corporation shall pay to the executive in a cash lump sum within 30 days after the date of termination, the aggregate of the following amounts: (i) the greater of executive's annual base salary through (x) the next applicable Renewal Date following the date of termination or (y) the six month period following the date of termination, in each case to the extent not theretofore paid; (ii) a special bonus of \$75,000 for each of Mr. Plumlee, Ms. Salvo and Ms. Lincoln; (iii) any other compensation

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previously deferred by the executive, together with any accrued interest or earnings thereon; and (iv) any accrued vacation pay.

"Change in Control" means (i) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 50% or more of either the then outstanding shares of Common Stock or the combined voting power of the then outstanding voting securities of the Corporation entitled to vote generally in the election of directors; (ii) individuals who, as of the date of the original employment agreements constitute the MicroFinancial Board, cease for any reason to constitute at least a majority of the MicroFinancial Board except with respect to any director who was approved by a vote of at least a majority of the directors then comprising the MicroFinancial Board; (iii) approval by the shareholders of the Corporation of a reorganization, merger or consolidation, in each case, unless, following such reorganization, merger or consolidation, more than 60% of the then outstanding shares of Common Stock continues to be owned by the shareholders who were the beneficial holders of such stock prior to such transaction; or (iv) approval by the shareholders of the Corporation of a complete liquidation or dissolution of the Corporation or the sale or other disposition of all or substantially all of the assets of the Corporation.

### OTHER INFORMATION RELATING TO DIRECTORS, NOMINEES AND EXECUTIVE OFFICERS

#### CERTAIN TRANSACTIONS

Richard F. Latour, President, Chief Operating Officer, Chief Financial Officer, Treasurer, Clerk, Secretary and Director of the Corporation has an outstanding demand note issued by the Corporation. As at December 31, 2001, the balance payable to Mr. Latour under this demand note was \$29,812 at an interest rate per annum equal to a bank prime rate minus 1%.

Dr. Bleyleben, the Chairman and Chief Executive Officer and a Director of the Corporation, loaned the Corporation \$200,000 in the form of a subordinated note on May 1, 2001. The note matures on May 1, 2006 (with a one-year optional extension by the Corporation) and bears interest at a rate of 12% per annum.

Mr. Boyle, a Director of the Corporation, loaned the Corporation \$200,000 in the form of a subordinated note on May 1, 2001. The note matures on May 1, 2006 (with a one-year optional extension by the Corporation) and bears interest at a rate of 12% per annum.

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Mr. Harder, a Director of the Corporation, loaned the Corporation \$100,000 in the form of a subordinated note on May 1, 2001. The note matures on May 1, 2006 (with a one-year optional extension by the Corporation) and bears interest at a rate of 12% per annum.

Mr. Latour also loaned the Corporation \$75,000 in the form of a subordinated note on May 1, 2001. The note matures on May 1, 2002 (with a one-year optional extension by the Corporation) and bears interest at a rate of 9% per annum.

On March 29, 1999, Ms. Ingrid Bleyleben, Mr. Bleyleben's mother, loaned the Corporation \$200,000 in the form of a demand note at an interest rate per annum equal to a bank prime rate minus 1%.

All of the foregoing transactions are on terms similar to those that would have been obtained through arms-length negotiations.

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### 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, 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. 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 ending December 31, 2000 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, 2001, with the exception of Mr. Boyle who inadvertently failed to file a timely Form 4 to report three transactions occurring in June 2001 which involved a total of 3,000 shares; Mr. Harder who inadvertently failed to file timely Forms 4 to report 10 transactions occurring in May 2001 which involved a total of 120,000 shares, one transaction occurring in June 2001 which involved a total of 5,000 shares, one transaction occurring in July 2001 which involved a total of 5,000 shares, and 20 transactions occurring in August 2001 which involved a total of 78,000 shares; and Steven J. LaCreta who inadvertently failed to file a timely Form 4 to report one transaction occurring in July 2001 which involved a total of 6,000 shares. These transactions were subsequently reported by the Reporting Person.

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 REPORTS AND PERFORMANCE GRAPH SET FORTH HEREIN SHALL NOT BE INCORPORATED BY REFERENCE INTO ANY SUCH FILINGS AND SHALL NOT OTHERWISE BE DEEMED FILED UNDER SUCH ACTS.

### COMPENSATION COMMITTEE REPORT

#### OVERVIEW AND PHILOSOPHY

The Compensation Committee of the Board of Directors (the "Compensation Committee") is composed of three members, all of whom are outside directors of the Corporation. The Compensation Committee provides overall guidance on the Corporation's compensation and benefits philosophy. In addition, the Compensation Committee approves and monitors the Corporation's:



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- executive compensation and benefits programs
- executive employment agreements, if any
- 1998 Equity Incentive Plan

The primary objectives of the Compensation Committee are to assure that the Corporation's executive compensation and benefits programs:

- reflect the Corporation's entrepreneurial orientation
- are competitive with other growing companies of similar size and business
- safeguard the interests of the Corporation and its stockholders
- are effective in driving performance to achieve financial goals and create stockholder value
- foster teamwork on the part of management

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- are cost-efficient and fair to employees, management and stockholders
- are well communicated to and understood by program participants

The Corporation'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 Corporation's financial goals. The Compensation Committee meets at least once during each fiscal year to review the Corporation's existing compensation and benefits programs and to consider modifications that seek to provide a direct relationship between executive compensation and sustained corporate performance.

The Corporation compensates its executive officers through four principal types of compensation: annual base salary, profit-sharing payments, board bonus payments, and long-term incentive awards through stock options. The Corporation, as a matter of policy, places substantial emphasis on both the profit sharing plan and long-term stock options since the Corporation believes that correlating both annual financial performance of the Corporation and long term share valuation with executive officer compensation is in the best interest of the shareholders.

### 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 salary and other compensation arrangements of other companies of similar size, business and similar growth to determine appropriate levels required to attract, motivate and retain the most qualified management personnel.

The Compensation Committee determines and makes final decisions regarding base salary of executives on an annual basis. The Compensation Committee recognizes that, to some degree, the determination of an executive officer's base salary involves subjective considerations.

### PROFIT SHARING PLAN

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A significant component of an executive officer's total cash compensation may consist of a profit sharing plan payment, which is intended to make the executive officer's compensation dependent on the Corporation's performance and to provide executive officers with incentives to achieve the Corporation's goals, increase stockholder value, and work as a team.

For purposes of determining profit sharing payments, the Corporation, since the early days of its existence, has placed a heavy emphasis on financial profits achieved by the Corporation. Each year the Compensation Committee indicates to the executive officers the percentage of the following year's pre-tax profits on which profit sharing plan payments will be based. Upon the conclusion of the audit of the prior year's financial results, the Compensation Committee determines the total percentage of pre-tax profits eligible for profit-sharing plan payments, and awards payments to Dr. Bleyleben and one other executive of the Corporation. To enhance long term retention of these executives, only one-third of the amount awarded is paid at that point in time. The remaining two-thirds may be paid out over the next two years in the discretion of the Compensation Committee and are subject to separate annual approvals of the Compensation Committee.

To enhance the retention of other senior personnel and to foster a spirit of teamwork, the Compensation Committee also establishes a pool along the same philosophy as for the two executives, and delegates to the Chairman and Chief Executive Officer the decision as to how and to whom to allocate the approved funds. Any such bonuses are also determined and paid upon completion of the Corporation's annual audit.

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### BOARD BONUS PAYMENTS

In addition, the Compensation Committee may approve an additional bonus based on the Committee's subjective evaluation of the quality and success of the executive.

### LONG TERM STOCK OPTION COMPENSATION

The Compensation Committee believes that providing 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 the Corporation's stockholders. Stock options, awarded under the 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, stock options are a key part of the Corporation's program for motivating and rewarding managers and other employees over the long term. Through the grant of stock options, the Corporation has encouraged its managers and other employees to obtain and hold the Corporation's stock. Stock options granted to employees are tied to future performance of the Corporation's stock and will provide value only when the price of the Corporation's stock exceeds the option grant price.

The Compensation Committee determines and makes final decisions regarding stock option awards made under the Plan. Such factors as performance and responsibilities of individual managers and the management team as a whole, as well as general industry practices play an integral role in the determination of the number of options awarded to a particular executive officer or employee. In determining the size of the individual award of options, the Compensation Committee also considers the number of options outstanding and previously granted, the amount of options remaining available for grant under the Plan, the aggregate amount of current awards, and the amount necessary to retain qualified personnel.

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In accordance with its business strategy and compensation philosophy, the Corporation has granted stock options to key executives and managers to afford them an opportunity to participate in the Corporation's future growth and to focus them on the contributions which are necessary for the financial success and business growth of the Corporation and, thereby, the creation of value for its stockholders.

Stock options are typically awarded based on an assessment of each recipient's ongoing contribution to overall corporate performance. The Corporation's Chief Executive Officer's input for the size and timing of option grants to other executives and managers is an important determinant of the actual grants given. As a means to encourage a stock option recipient to remain in service with the Corporation, stock option awards vest over a period of five years from the date of grant. All incentive stock options have exercise prices at least equal to the fair market value of the Corporation's stock on the date of grant.

### 2001 COMPENSATION FOR THE CHIEF EXECUTIVE OFFICER

The general policies described above for the compensation of the executive officers also apply to the compensation approved by the Compensation Committee with respect to the 2001 compensation for Dr. Peter R. von Bleyleben, the Corporation's Co-Founder, Chairman and Chief Executive Officer.

Dr. Bleyleben's base salary was \$265,000 in 2001, \$270,000 in 2000, \$260,000 in 1999, \$250,000, in 1998, \$220,000 in 1997 and \$190,000 in 1996. Dr. Bleyleben was paid a profit sharing plan payment in 2001 of approximately \$400,000, in 2000 of approximately \$366,873, in 1999 of approximately \$369,000, approximately \$304,000 in 1998, approximately \$222,000 in 1997 and approximately \$164,000 in 1996 and an additional board bonus of \$70,000, \$70,000, \$70,000, \$60,000, \$55,000, and \$50,000, respectively, for the same years. During the same time period, the Corporation's pre-tax profits increased from \$4.2 million in 1995 to \$26.4 million in 2001.

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Although the Compensation Committee and the Board of Directors approved a \$375,854 profit sharing plan payment to be paid in 2002, Dr. Bleyleben declined to accept this payment because the Corporation has recently implemented salary freezes for higher paid executives and other cost-cutting measures at the Corporation.

At December 31, 2001, Dr. Bleyleben had options to purchase 200,000 shares of Common Stock. Options to acquire 100,000 shares of common stock were granted to him on February 25, 1999: 59,391 options at an exercise price equal to the then fair market value of \$12.313 per underlying share; and 40,609 options at an exercise price of \$13.544 per share which was 10% higher than the then fair market value of \$12.313 per underlying share in order to follow regulations of the Internal Revenue Service with regard to issuing qualified incentive stock options. Options to acquire 100,000 shares of common stock were granted to him on February 24, 2000 at an exercise price equal to the then fair market value of \$9.781 per underlying share. Due to the relatively large number of shares held and options granted to and exercised by Dr. Bleyleben in the past, the Compensation Committee is of the opinion that the financial incentive of Dr. Bleyleben is fully aligned with those of all other shareholders.

Dr. Bleyleben continues to fulfill a central and critical role in the development of the Corporation as a whole, including but not limited to the achievement of the Corporation's 2002 goals, and it is the Compensation Committee's expectation that he will continue to have an important influence on

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the Corporation's goals outlined for 2002. The Compensation Committee believes that Dr. Bleyleben's compensation arrangement reflects the above-described compensation philosophy of the Corporation designed to align management compensation closely with financial performance and increased stockholder value.

### IRS MATTERS

Under Section 162(m) of the Internal Revenue Code and the regulations promulgated thereunder, deductions for employee remuneration in excess of \$1 million which is not performance-based are disallowed for publicly traded companies. Since levels of compensation paid by the Corporation are expected to be significantly below \$1 million, the Compensation Committee has determined that it is unnecessary at this time to seek to qualify the components of its compensation program as performance-based compensation within the meaning of Section 162(m).

#### COMPENSATION COMMITTEE:

Torrence C. Harder, Chairman  
Alan J. Zakon,  
Brian E. Boyle

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### AUDIT COMMITTEE REPORT

In connection with the preparation and filing of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2001, the Audit Committee (i) reviewed and discussed the audited financial statements with management, (ii) discussed with Deloitte & Touche LLP, the Corporation's independent auditors, the matters required to be discussed by Statement of Auditing Standards 61 (as modified or supplemented) and (iii) received the written disclosures and the letter from Deloitte & Touche LLP required by Independence Standards Board Standard No. 1 (as modified or supplemented) and discussed the independence of Deloitte & Touche LLP with Deloitte & Touche LLP. 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, 2001.

#### AUDIT COMMITTEE:

Alan J. Zakon, Chairman  
Brian E. Boyle,  
Torrence C. Harder

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### PERFORMANCE GRAPH

The following graph illustrates a thirty-five (35) month comparison of cumulative total returns for the Corporation's Common Stock, the NYSE Stock Index and the S&P Mid-Cap Financials Index from February 5, 1999 through December 31, 2001. Cumulative total return for the periods shown in the Performance Graph is measured assuming an initial investment of \$100 on February 5, 1999, the date of the Corporation's initial public offering, and the reinvestment of dividends, if any.

NOTE: MANAGEMENT CAUTIONS THAT THE HISTORIC STOCK PRICE PERFORMANCE INFORMATION SHOWN IN THIS GRAPH MAY NOT BE INDICATIVE OF CURRENT STOCK PRICE LEVELS OR

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### FUTURE STOCK PRICE PERFORMANCE.

[Performance Graph]

	MFI (2/5/99 = 100)	S&P MID-CAP FINANCIALS (2/5/99 = 100)
	-----	-----
2/5/99	100.00	100.00
3/5/99	87.50	104.08
4/1/99	93.33	102.63
4/30/99	119.01	115.74
5/28/99	81.01	110.65
7/2/99	96.04	111.05
8/6/99	76.65	98.24
9/3/99	67.01	95.39
10/8/99	87.12	93.38
11/5/99	72.28	104.66
12/3/99	78.16	98.95
1/7/00	75.64	86.22
2/4/00	78.84	82.02
3/10/00	64.09	69.33
4/7/00	69.99	79.49
5/5/00	67.73	77.79
6/2/00	63.92	88.53
7/7/00	66.04	81.55
8/4/00	66.36	88.40
9/8/00	68.91	93.63
10/6/00	61.25	92.69
11/3/00	74.37	94.23
12/1/00	72.66	93.63
12/29/00	80.36	107.17
2/2/01	93.34	102.723
3/9/01	85.10	99.2711
4/6/01	76.87	92.5865
5/4/01	86.46	102.997
6/1/01	108.85	104.605
7/6/01	111.26	106.571
8/3/01	100.54	110.162
8/31/01	92.73	103.575
9/28/01	95.01	98.8135
10/26/01	69.16	96.5862
11/30/01	68.64	100.348
12/28/01	71.83	104.431

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### RATIFICATION OF THE SELECTION OF MICROFINANCIAL'S INDEPENDENT AUDITORS

The selection of Deloitte & Touche LLP ("Deloitte") to serve as independent auditors of MicroFinancial for the current fiscal year ending December 31, 2002, will be submitted to the stockholders of the Corporation for ratification at the Special Meeting. Representatives of Deloitte 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.

Deloitte served as the Corporation's independent accountants for the Corporation's fiscal years ended December 31, 2001 and December 31, 2000.

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The firm of Deloitte 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 Deloitte during the year ended December 31, 2001 were furnished at customary rates.

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.

### AUDIT FEES

The aggregate fees billed by Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, "Deloitte & Touche"), which includes Deloitte Consulting, for professional services rendered for the audit of the Corporation's annual financial statements for the fiscal year ended December 31, 2001 and for the reviews of the financial statements included in the Corporation's Quarterly Reports on Form 10-Q for that fiscal year were \$261,800.

### FINANCIAL INFORMATION SYSTEMS DESIGN AND IMPLEMENTATION FEES

No services were performed by, or fees incurred to, Deloitte & Touche or Deloitte Consulting in connection with financial systems design and implementation projects for the fiscal year ended December 31, 2001. Deloitte & Touche has recently announced its intent to separate Deloitte Consulting from the firm.

### ALL OTHER FEES

The aggregate fees billed by Deloitte & Touche for services rendered to the Corporation, other than the services described above under "Audit Fees" and "Financial Information Systems Design and Implementation Fees", for the fiscal year ended December 31, 2001 were \$45,150 including audit related services of approximately \$9,200 and non-audit services of \$35,950. Audit related services generally include fees for consents, audits of the Corporation's employee benefit plans and assistance with the implementation of the new accounting pronouncements.

THE MICROFINANCIAL BOARD RECOMMENDS A VOTE "FOR" THIS PROPOSAL  
WHICH IS IDENTIFIED AS PROPOSAL 3 ON THE ENCLOSED PROXY.

### REPLACEMENT OF INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP ("PWC"), the Corporation's independent accountants engaged by the Corporation to audit the Corporation's financial statements for the Corporation's fiscal years ended Decem-

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ber 31, 1998 and December 31, 1999, resigned as the Corporation's independent accountants effective as of April 5, 2000. The Board of Directors of the Corporation engaged Deloitte as its principal accountant to replace PWC.

During the Corporation's audited periods ending December 31, 1998 and December 31, 1999 and the subsequent interim period ending April 5, 2000, there were no disagreements with PWC on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of PWC, would have caused PWC

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to make reference to the subject matter of the disagreements in connection with its reports. The Corporation has provided PWC with a copy of this disclosure and PWC has furnished the Corporation with a letter addressed to the Securities and Exchange Commission stating that PWC agrees with the above statements. A copy of PWC's letter to the Securities and Exchange Commission dated April 6, 2000 is filed as Exhibit No. 18.1 to the Corporation's report on Form 8-K filed with the Securities and Exchange Commission on April 7, 2000.

### 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.

### 2003 STOCKHOLDER PROPOSALS

Proposals of stockholders to be included in the proxy statement and form of proxy for the Corporation's 2003 Special Meeting of Stockholders must be received by December 19, 2002. Stockholders who wish to make a proposal at the aforementioned Special Meeting of Stockholders, other than one that will be included in the Corporation's proxy materials, must notify the Corporation no later than January 18, 2003 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 18, 2003, 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 950 Winter Street, Waltham, Massachusetts 02451.

### 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, 2001 that was filed with the Securities and Exchange Commission on April 1, 2002, a copy of which has been provided to the stockholders concurrently herewith. 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.

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Submitted by Order of the Board of  
Directors,

/S/ Richard F. Latour  
RICHARD F. LATOUR  
Clerk

Waltham, Massachusetts  
April 18, 2002

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PROXY  
MICROFINANCIAL INCORPORATED

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF THE CORPORATION  
FOR THE SPECIAL MEETING OF STOCKHOLDERS IN LIEU OF ANNUAL MEETING TO BE HELD  
ON MAY 16, 2002, OR ANY ADJOURNMENTS THEREOF

THE SHARES REPRESENTED HEREBY WILL BE VOTED AS DIRECTED BY THEIR  
STOCKHOLDERS (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, LLP, 101 Federal Street, Boston, Massachusetts on  
Thursday, May 16, 2002, at 4:30 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 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, FOR the ratification of the election of a  
Director for a two-year term and FOR the ratification of the appointment of  
Deloitte & Touche LLP as the Corporation's independent auditors for the year  
ending December 31, 2002, 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, FOR THE RATIFICATION  
OF THE ELECTION OF A DIRECTOR FOR A TWO-YEAR TERM AND FOR THE RATIFICATION OF  
THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS THE CORPORATION'S INDEPENDENT  
AUDITORS FOR THE YEAR ENDING DECEMBER 31, 2002.

CONTINUED, AND TO BE SIGNED, ON REVERSE SIDE

PLEASE DATE, SIGN AND MAIL YOUR  
PROXY CARD BACK AS SOON AS POSSIBLE!

SPECIAL MEETING OF STOCKHOLDERS  
IN LIEU OF ANNUAL MEETING  
MICROFINANCIAL INCORPORATED

MAY 16, 2002



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Please Detach and Mail in the Envelope Provided

A [X] PLEASE MARK YOUR  
VOTES AS IN THIS  
EXAMPLE

1. Election of the following directors for three-year terms.

FOR all nominees listed at right (except as marked to the contrary)	WITHHOLD AUTHORITY to vote for all nominees listed at right	NOMINEES: Torrence C. Harder Jeffrey P. Parker
[ ]	[ ]	

INSTRUCTION: To withhold authority to vote FOR any individual nominee, write the nominee's name in the space provided below:

\_\_\_\_\_

2. Ratification of the election of Richard F. Latour for a two-year term.

FOR	AGAINST	ABSTAIN
[ ]	[ ]	[ ]

3. Ratification of the appointment by the Board of Directors of the firm of Deloitte & Touche LLP as independent auditors of the Corporation for the year ending December 31, 2002.

FOR	AGAINST	ABSTAIN
[ ]	[ ]	[ ]

MARK HERE IF YOU PLAN TO ATTEND THE MEETING [ ]

MARK HERE FOR ADDRESS CHANGE AND NOTE AT LEFT [ ]

PLEASE MARK, DATE, SIGN AND MAIL THIS PROXY CARD IN THE ACCOMPANYING ENVELOPE. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES.

THE BOARD OF DIRECTORS OF THE CORPORATION RECOMMENDS A VOTE FOR THE ELECTION OF THE NOMINEES FOR DIRECTOR FOR THREE-YEAR TERMS, A VOTE FOR THE RATIFICATION OF THE ELECTION OF A DIRECTOR FOR A TWO-YEAR TERM AND A VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS THE CORPORATION'S INDEPENDENT AUDITORS FOR THE YEAR ENDING DECEMBER 31, 2002.

Signature \_\_\_\_\_ Date: \_\_\_\_\_ Signature \_\_\_\_\_ Date: \_\_\_\_\_, 2002

NOTE: Please sign EXACTLY as name(s) appear hereon. When signing as administrator, attorney, executor, guardian or trustee, please give your full title. If the signer is a corporation or partnership, please sign full corporate or partnership name by any authorized officer or person. If shares are held jointly, each joint owner should sign.