MICROFINANCIAL INC
Form 10-K
March 31, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file no. 1-14771
MicroFinancial Incorporated
(Exact name of Registrant as Specified in its Charter)

Massachusetts *(State or other jurisdiction of incorporation or organization)*	**04-2962824** *(I.R.S. Employer Identification No.)*
10M Commerce Way, Woburn, MA *(Address of Principal Executive Offices)*	**01801** *(Zip Code)*

Registrant s telephone number, Including Area Code:
(781) 994-4800

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, $0.01 par value per share	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No þ

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

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

The aggregate market value of the registrant s voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2008 the last day of the registrant s most recently completed second fiscal quarter, was approximately $32,161,000 computed by reference to the closing price of such stock as of such date.

As of March 16, 2009, 14,139,942 shares of the registrant s common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s proxy statement to be filed pursuant to Regulation 14A within 120 days after the Registrant s fiscal year end of December 31, 2008, are incorporated by reference in Part III hereof.

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PART I

Item 1. *Business*

General

MicroFinancial Incorporated (referred to as MicroFinancial, we, us or our) was formed as a Massachusetts corporat on January 27, 1987. We operate primarily through our wholly-owned subsidiaries, TimePayment Corp. (TimePayment) and Leasecomm Corporation (Leasecomm). TimePayment is a specialized commercial finance company that leases and rents microticket equipment and provides other financing services. TimePayment commenced originating leases in July 2004. Leasecomm started originating leases in January 1986 and in October 2002 suspended virtually all originations due to a lack of financing. The average amount financed by TimePayment in 2008 was approximately $5,500 while Leasecomm historically financed contracts averaging approximately $1,900. We have used proprietary software in developing a sophisticated, risk-adjusted pricing model and in automating our credit approval and collection systems, including a fully-automated Internet-based application, credit scoring and approval process.

We provide financing alternatives to a wide range of lessees ranging from start-up businesses to established businesses. We primarily lease and rent low-priced commercial equipment, which is used by these lessees in their daily operations. We do not market our services directly to lessees. We primarily source our originations through a nationwide network of independent equipment vendors, sales organizations, brokers and other dealer-based origination networks. We fund our operations through cash provided by operating activities and borrowings under our line of credit.

TimePayment finances a wide variety of products with no single product representing more than 25% of the amount financed in its portfolio as of December 31, 2008. The Leasecomm portfolio consists primarily of contracts for authorization systems for point-of-sale (POS), card-based payments by debit, credit, gift and charge cards. POS authorization systems require the use of a POS terminal capable of reading a cardholder s account information from the card s magnetic strip and combining this information with the amount of the sale entered via a POS terminal keypad, or POS software used on a personal computer to process a sale. The terminal electronically transmits this information over a communications network to a computer data center and then displays the returned authorization or verification response on the POS terminal.

We depend heavily on external financing to fund new leases and contracts. On August 2, 2007, we entered into a three-year $30 million line of credit with a bank syndicate led by Sovereign Bank (Sovereign) based on qualified TimePayment lease receivables. On July 9, 2008 we entered into an amended agreement to increase our line of credit with Sovereign to $60 million. The maturity date of the amended agreement is August 2, 2010. Outstanding borrowings are collateralized by eligible lease contracts and a security interest in all of our other assets. Until February 2009, borrowings bore interest at the prime rate (Prime) or at the 90-day London Interbank Offered Rate (LIBOR) plus 2.75%. Under the terms of the facility, loans are Prime Rate Loans, unless we elect LIBOR Loans. If a LIBOR Loan is not renewed at maturity it automatically coverts to a Prime Rate Loan.

On February 10, 2009, we entered into an amended agreement to increase our line of credit with Sovereign to $85 million. Under the amended agreement, outstanding borrowings bear interest at either Prime plus 1.75% or LIBOR plus 3.75%, in each case subject to a minimum interest rate of 5%. All other terms of the facility remained the same.

In June 2004, MicroFinancial secured a $10 million credit facility, comprised of a one-year $8 million line of credit and a $2 million three-year subordinated note which allowed us to resume originations after suspending originations in 2002 when our then-existing credit facility failed to renew. In conjunction with raising new capital, we also established TimePayment as a new wholly-owned operating subsidiary. In September 2004, MicroFinancial secured a three-year, $30 million, senior secured revolving line of credit from CIT Commercial Services, a unit of CIT Group (CIT). This line of credit replaced the $8 million line of credit under more favorable terms and conditions. In addition, we retired the outstanding senior credit facility with the former bank group. On July 20, 2007, by mutual agreement between CIT and us, we paid off and terminated the CIT line of credit without penalty.

Leasing, Servicing and Financing Programs

We originate leases for products that typically have limited distribution channels and high selling costs. We facilitate sales of such products by allowing dealers to make them available to their customers for a small monthly lease payment rather than a higher initial purchase price. We primarily lease and rent low-priced commercial equipment to small merchants. We currently lease a wide variety of equipment including POS authorization systems, advertising and display equipment, security equipment, paging systems, water coolers and restaurant equipment. In addition, in the past we have acquired service contracts and contracts in certain other financing markets, and continue to look for opportunities to invest in these types of assets. Our current portfolio also includes a limited amount of consumer financings which consist of service contracts from dealers that primarily provide residential security monitoring services, as well as consumer leases for a wide range of consumer products.

Since resuming originations in June 2004 we have originated and continue to service contracts in all 50 states and the District of Columbia. As of December 31, 2006, leases in California, Florida, Texas, Massachusetts and New York accounted for approximately 40% of our portfolio. No state accounted for more than 10% of such total. As of December 31, 2007, California, Florida, Texas and New York accounted for approximately 13%, 13%, 8%, and 7%, respectively, of the total portfolio. No other state accounted for more than 5% of such total. As of December 31, 2008, Florida, California, Texas and New York accounted for approximately 13%, 12%, 8%, and 7%, respectively, of the total portfolio. No other state accounted for more than 5% of such total.

Terms of Equipment Leases

Substantially all equipment leases originated or acquired by us are non-cancelable. We generally originate leases on transactions referred to us by a dealer where we buy the underlying equipment from the referring dealer upon funding the approved application. Leases are structured with limited recourse to the dealer, with risk of loss in the event of default by the lessee residing with us in most cases. We perform all the processing, billing and collection functions under our leases.

During the term of a typical lease, we receive payments sufficient, in the aggregate, to cover our borrowing cost, the cost of the underlying equipment, and to provide us with an appropriate profit. Throughout the term of the lease, we charge late fees, prepayment penalties, loss and damage waiver fees and other service fees, when applicable. Initial terms of the leases we funded in 2008 generally range from 12 to 60 months, with an average initial term of 45 months.

The terms and conditions of all of our leases are substantially similar. In most cases, the contracts require lessees to: (i) maintain, service and operate the equipment in accordance with the manufacturer s and government-mandated procedures; (ii) insure the equipment against property and casualty loss; (iii) pay all taxes associated with the equipment; and (iv) make all scheduled contract payments regardless of the performance of the equipment. Our standard lease forms provide that in the event of a default by the lessee, we can require payment of liquidated damages and can seize and remove the equipment for sale, refinancing or other disposal at our discretion. Any additions, modifications or upgrades to the equipment, regardless of the source of payment, are automatically incorporated into, and deemed a part of, the equipment financed.

We seek to protect ourselves from credit exposure relating to dealers by entering into limited recourse agreements with our dealers, under which the dealer agrees to reimburse us for defaulted contracts under certain circumstances, primarily upon evidence of dealer errors or misrepresentations in originating a lease or contract.

Residual Interests in Underlying Equipment

We typically own a residual interest in the equipment covered by our leases. The value of such interest is estimated at inception of the lease based upon our estimate of the fair market value of the asset at lease maturity. At the end of the lease term, the lessee has the option to buy the equipment at the fair market value, return the equipment or continue to rent the equipment on a month-to-month basis. If the equipment is returned, we may either sell the equipment, or place it into our used equipment rental or leasing program.

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Service Contracts

In the past we have also from time to time acquired service contracts, under which a homeowner purchases a security system and simultaneously signs a contract with the dealer for the monitoring of that system for a monthly fee. Upon approval of the monitoring application and verification with the homeowner that the system is installed, we would purchase the right to the payment stream under the monitoring contract from the dealer at a negotiated multiple of the monthly payments. We have not purchased any new security service contracts since 2004, although we do originate security equipment leases that include monitoring. Our service contract portfolio represents a less significant portion of our revenue stream over time.

Dealers

We provide financing to obligors under microticket leases and contracts through a nationwide network of equipment vendors, independent sales organizations and brokers. We do not sign exclusive agreements with our dealers. Dealers interact directly with potential lessees and typically market not only their products and services, but also the financing arrangements offered through us. Historically, we had over 1,000 different dealers originating leases and contracts on a regular basis. When we suspended nearly all of our contract originations in October 2002 due to a lack of financing sources, the number of dealers we utilized for the limited number of contracts we were able to originate declined substantially. As we began to originate more contracts following the establishment of our line of credit with CIT in September 2004, we also began to expand the number of dealers in our network. During the year ended 2008 we had over 800 different dealers originating leases and contracts.

During the year ended December 31, 2006 our top dealer accounted for 13.91% of the leases originated. During the year ended December 31, 2007 our top dealer accounted for 10.03% of the leases originated. During the year ended December 31, 2008 our top dealer accounted for 4.5% of the leases originated.

Use of Technology

Our business is operationally intensive, due in part to the small average amount financed. Accordingly, technology and automated processes are critical in keeping servicing costs to a minimum while providing quality customer service.

We have developed TimePaymentDirect, an Internet-based application processing, credit approval and dealer information tool. Using TimePaymentDirect, a dealer can input an application and obtain almost instantaneous approval automatically over the Internet, all without any contact with our employees. We also offer InstaleaseR, a program that allows a dealer to submit applications to us by telephone, telecopy or e-mail, receive approval, and complete a sale from a lessee s location. By assisting the dealers in providing timely, convenient and competitive financing for their equipment contracts and offering dealers a variety of value-added services, we simultaneously promote equipment contract sales and the utilization of TimePayment as the preferred finance provider, thus differentiating us from our competitors.

We have used our proprietary software to develop a multidimensional credit-scoring model which generates pricing of our leases and contracts commensurate with the risk assumed. This software does not produce a binary yes or no decision, but rather, for a yes decision, determines the price at which the lease or contract might be profitably underwritten. We use credit scoring in most, but not all, of our credit decisions.

Underwriting

The nature of our business requires that the underwriting process perform two levels of review: the first focused on the ultimate end-user of the equipment or service and the second focused on the dealer. The approval process begins with the submission by telephone, facsimile or electronic transmission of a credit application by the dealer. Upon submission, we either manually or through TimePaymentDirect conduct our own independent credit investigation of the lessee using our proprietary database. In order to facilitate this process we will use recognized commercial credit reporting agencies such as Dun & Bradstreet, Paynet and Experian. Our software evaluates this information on a two-dimensional scale, examining both credit depth (how much information exists on an applicant) and credit quality (credit performance, including past payment history). We use this information to underwrite a broad range of credit risks and provide financing in situations where our competitors may be unwilling to provide such financing. The credit-scoring model is complex and automatically adjusts for different transactions. In situations where the amount financed is over $10,000 we may go beyond our own data base and recognized commercial credit reporting agencies to obtain information from less readily available sources such as banks. In certain instances, we will require the lessee to provide verification of employment and salary.

The second aspect of the credit decision involves an assessment of the originating dealer. Dealers undergo both an initial screening process and ongoing evaluation, including an examination of dealer portfolio credit quality and performance, lessee complaints, cases of fraud or misrepresentation, aging studies, number of applications and conversion rates for applications. This ongoing assessment enables us to manage our dealer relationships, including ending relationships with poorly performing dealers.

Upon credit approval, we require receipt of a signed lease on our standard or other pre-approved lease form. After the equipment is shipped and installed, the dealer invoices us and we verify that the lessee has received and accepted the equipment. Upon the completion of a satisfactory verification with the lessee, the lease is forwarded to our funding and documentation department for payment to the dealer and the establishment of the accounting and billing procedures for the transaction.

Bulk and Portfolio Acquisitions

In addition to originating leases through our dealer relationships, from time to time we have also purchased lease portfolios from dealers. While certain of these leases may not have met our underwriting standards at inception, we will purchase the leases once the lessee demonstrates a satisfactory payment history. We prefer to acquire these smaller lease portfolios in situations where the seller will continue to act as a dealer following the acquisition. We have not purchased any material portfolio in 2008, 2007 nor 2006.

Servicing and Collections

We perform all the servicing functions on our leases and contracts through our automated servicing and collection system. Servicing responsibilities generally include billing, processing payments, remitting payments to dealers, paying taxes and insurance and performing collection and liquidation functions.

Our automated lease administration system handles application tracking, invoicing, payment processing, automated collection queuing, portfolio evaluation and report writing. The system is linked with our bank accounts for payment processing and also provides for direct withdrawal of lease and contract payments from a lessee s bank account. We monitor delinquent accounts using our automated collection process. We use several computerized processes in our customer service and collection efforts, including the generation of daily priority call lists and scrolling for daily delinquent account servicing, generation and mailing of delinquency letters, and routing of incoming customer service calls to appropriate employees with instant computerized access to account details. Our collection efforts include sending collection letters, making collection calls, reporting delinquent accounts to credit reporting agencies, and litigating delinquent accounts when necessary to obtain and enforce judgments.

Competition

The microticket leasing and financing industry is highly competitive. We compete for customers with a number of national, regional and local banks and finance companies. Our competitors also include equipment manufacturers that lease or finance the sale of their own products. While the market for microticket financing has traditionally been fragmented, we could also be faced with competition from small- or large-ticket leasing companies that could use their expertise in those markets to enter and compete in the microticket financing market. Our competitors include larger, more established companies, some of which may possess substantially greater financial, marketing and operational resources than us, including a lower cost of funds and access to capital markets and other funding sources which may be unavailable to us.

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Employees

As of December 31, 2008, we had 103 full-time employees, of whom 39 were engaged in sales and underwriting activities and dealer service, 38 were engaged in servicing and collection activities, and 26 were engaged in general administrative activities. We believe that our relationship with our employees is good. None of our employees are members of a collective bargaining unit in connection with their employment with us.

Executive Officers

Name and Age of Executive Officers	Title
Richard F. Latour, 55	Director, President, Chief Executive Officer, Treasurer, Secretary and Clerk
James R. Jackson, Jr., 47	Vice President and Chief Financial Officer
Steven J. LaCreta, 49	Vice President, Lessee Relations and Legal
Stephen J. Constantino, 43	Vice President, Human Resources
Thomas Herlihy, 50	Vice President, Sales and Marketing, of TimePayment Corp.

Backgrounds of Executive Officers

Richard F. Latour has served as our President, Chief Executive Officer, Treasurer, Clerk and Secretary since October 2002 and as President, Chief Operating 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 us, 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.

James R. Jackson Jr. has served as our Vice President and Chief Financial Officer since April 2002. Prior to joining us, from 1999 to 2001, Mr. Jackson was Vice President of Finance for Deutsche Financial Services Technology Leasing Group. From 1992 to 1999, Mr. Jackson held positions as Manager of Pricing and Structured Finance and Manager of Business Planning with AT&T Capital Corporation.

Steven J. LaCreta has served as our Vice President, Lessee Relations and Legal since May 2005. From May 2000 to May 2005, Mr. LaCreta served as Vice President, Lessee Relations. From November 1996 to May 2000, Mr. LaCreta served as our Director of Lessee Relations. Prior to joining us, Mr. LaCreta was a Leasing Collection Manager with Bayer Corporation.

Stephen J. Constantino has served as our Vice President, Human Resources since May 2000. From 1994 to May 2000, Mr. Constantino served as our Director of Human Resources. From 1992 to 1994, Mr. Constantino served as our Controller. From 1991 to 1992, Mr. Constantino served as our Accounting Manager.

Thomas Herlihy has served as Vice President, Sales and Marketing, of our operating subsidiary, TimePayment Corp. since May 2005. From 2004 to March 2005, Mr. Herlihy served as General Manager of US Express Leasing and from 2000 to 2003, Mr. Herlihy served as Executive Vice President of ABB Business Finance. From 1989 to 2000, Mr. Herlihy served as Senior Vice President of AT&T Capital and its successor companies.

Availability of Information

We maintain an Internet website at http://www.microfinancial.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as well as Section 16 reports on Form 3, 4, or 5, are available free of charge on this site as soon as is reasonably practicable after they are filed or furnished with the Securities and Exchange Commission (SEC). Our Guidelines on Corporate Governance, our Code of Business Conduct and Ethics and the charters for the Audit Committee, Nominating and Corporate Governance

Committee, Compensation and Benefits Committee, Credit Policy Committee and Strategic Planning Committee of our Board of Directors are also available on our Internet site. The Guidelines, Code of Ethics and charters are also available in print to any shareholder upon request. Requests for such documents should be directed to Richard F. Latour, Chief Executive Officer, at 10M Commerce Way, Woburn, Massachusetts 01801. Our Internet site and the information contained therein or connected thereto are not incorporated by reference into this Form 10-K. Our filings with the SEC are also available on the SEC s website at http://www.sec.gov.

Item 1A. *Risk Factors*

Set forth below and elsewhere in this report and in other documents we file with the Securities and Exchange Commission are risks and uncertainties that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this report and other periodic statements we make.

We depend on external financing to fund leases and contracts, and adequate financing may not be available to us in amounts, together with our cash flow, sufficient to originate new leases.

Our lease and finance business is capital intensive and requires access to substantial short-term and long-term credit to fund leases and contracts. We will continue to require significant additional capital to maintain and expand our funding of leases and contracts, as well as to fund any future acquisitions of leasing companies or portfolios. Our uses of cash include the origination and acquisition of leases and contracts, payment of interest and principal on borrowings, payment of selling, general and administrative expenses, income taxes, capital expenditures and dividends.

As of September 30, 2002, our former $192 million credit facility failed to renew and consequently, we were forced to suspend substantially all origination activity shortly thereafter. In June 2004, we secured a one-year $8 million line of credit and a $2 million three-year subordinated note that enabled us to resume originations. On September 29, 2004, we secured a three-year, $30 million, senior secured revolving line of credit from CIT. The CIT line of credit replaced the one-year $8 million line of credit under more favorable terms and conditions. In addition, it retired the outstanding debt with our former lenders. In July 2007, by mutual agreement between CIT and us, we paid off and terminated the CIT line of credit without penalty.

In August 2007, we entered into a three-year $30 million line of credit with Sovereign based on qualified TimePayment lease receivables. On July 9, 2008 we entered into an amended agreement to increase our line of credit with Sovereign to $60 million. The maturity date of the amended agreement remained August 2, 2010. Outstanding borrowings are collateralized by eligible lease contracts and a security interest in all of our other assets, and until February 2009 bore interest at Prime or at LIBOR plus 2.75%.

On February 10, 2009 we entered into an amended agreement to increase our line of credit with Sovereign to $85 million. Under the amendment, outstanding borrowings bear interest at either Prime plus 1.75% or LIBOR plus 3.75%, in each case subject to a minimum interest rate of 5%. All other terms of the facility remained the same.

Any default or other interruption of our external funding could have a material negative effect on our ability to fund new leases and contracts, and could, as a consequence, have an adverse effect on our financial results. Our ability to draw down amounts under our credit facility is potentially restricted by a borrowing base calculated with respect to our eligible receivables, and by the facility s requirement that we maintain certain leverage and other financial ratios. The credit facility contains certain provisions which limit our ability to incur indebtedness from other sources.

The delay in originations caused by our former credit facility s failure to renew in 2002 has decreased the size of our portfolio and may continue to adversely affect our financial performance.

As a result of the failure of our old credit facility to renew, in October 2002, we were forced to suspend virtually all contract originations until we obtained a source of funding or until such time as the senior credit facility was paid in full. During 2003, we were able to fund a very limited number of new contracts using our free cash flow. Our credit facilities entered into in June and September 2004 enabled us to resume contract originations. The absence of contract originations from October 2002 to June 2004 has had a continuing affect on our portfolio and financial performance as older contracts in the portfolio expire and are not replaced through new contract originations during that period. As a result, our revenues derived from financing leases declined in each of the years 2002 through 2006, despite our increased levels of origination beginning in 2004 when we arranged a replacement credit facility. It will take some time to bring our portfolio to the point where it was when we suspended originations.

In addition, after we ceased funding originations in 2002, we were required to terminate a number of our sales, sales support and credit personnel. As we have made progress in originating contracts in light of our new credit facilities, we face challenges in rebuilding those competencies through new hires. This illustrates how disruptions to our financing and origination capabilities can have long-lasting effects on our financial condition that extend beyond the resumption of originations.

A protracted economic downturn may cause an increase in defaults under our leases and lower demand for the commercial equipment we lease.

A protracted economic downturn such as the one the United States and other nations are currently experiencing could result in a decline in the demand for some of the types of equipment or services we finance, which could lead to additional defaults and a decline in originations. A protracted economic downturn may slow the development and continued operation of small commercial businesses, which are the primary market for the commercial equipment leased by us. Such a downturn could also adversely affect our ability to obtain capital to fund lease and contract originations or acquisitions, or to complete securitizations. In addition, a protracted downturn could result in an increase in delinquencies and defaults by our lessees and other obligors, which could have an adverse effect on our cash flow and earnings, as well as on our ability to securitize leases. These factors could have a material adverse effect on our business, financial condition and results of operations.

Additionally, as of December 31, 2008 and 2007 leases in the states of California, Florida, New York and Texas accounted for approximately 40% of our portfolio. For the year ended December 31 2006, leases in California, Florida, Texas, Massachusetts and New York accounted for approximately 40% of our portfolio. Economic conditions in these states may affect the level of collections from, as well as delinquencies and defaults by, these obligors.

We experience a significant rate of default under our leases, and a higher than expected default rate would have an adverse affect on our cash flow and earnings.

Even in times of general economic growth, the credit characteristics of our lessee base correspond to a high incidence of delinquencies, which in turn may lead to significant levels of defaults. The credit profile of our lessees heightens the importance of both pricing our leases and contracts for the risk assumed, as well as maintaining an adequate allowance for losses. Our lessees, moreover, have been affected by the current economic downturn like almost all small businesses. Significant defaults by lessees in excess of those we anticipate in setting our prices and allowance levels may adversely affect our cash flow and earnings. Reduced cash flow and earnings could limit our ability to repay debt and obtain financing, which could have a material adverse effect on our business, financial condition and results of operations.

In addition to our usual practice of originating leases through our dealer relationships, from time to time we have purchased lease portfolios from dealers. While certain of these leases at inception would not have met our underwriting standards, we will purchase leases once the lessee demonstrates a payment history. We prefer to acquire these smaller lease portfolios in situations where the company selling the portfolio will continue to act as a dealer following the acquisition.

Our allowance for credit losses may prove to be inadequate to cover future credit losses.

We maintain an allowance for credit losses on our investments in leases, service contracts and rental contracts at an amount we believe is sufficient to provide adequate protection against losses in our portfolio. We can not be sure that our allowance for credit losses will be adequate over time to cover losses caused by adverse economic factors, or unfavorable events affecting specific leases, industries or geographic areas. Losses in excess of our allowance for credit losses may have a material adverse effect on our business, financial condition and results of operations.

We are vulnerable to changes in the demand for the types of equipment we lease or price reductions in such equipment.

Our portfolio is comprised of authorization systems for point-of-sale (POS), card-based payments by, for example, debit, credit, gift and charge cards in addition to a wide variety of other equipment including advertising and display equipment, coffee machines, security equipment, paging systems, water coolers and restaurant equipment. Reduced demand for financing of these types of equipment could adversely affect our lease origination volume, which in turn could have a material adverse effect on our business, financial condition and results of operations. Technological advances may lead to a decrease in the price of these types of systems or equipment and a consequent decline in the need for financing of such equipment. In addition, for POS authorization systems, business and technological changes could change the manner in which POS authorization is obtained. These changes could reduce the need for outside financing sources that would reduce our lease financing opportunities and origination volume in such products. These types of equipment are often leased by small commercial businesses which may be particularly susceptible to the current economic downturn, which may also affect demand for these products.

In the event that demand for financing the types of equipment that we lease declines, we will need to expand our efforts to provide lease financing for other products. There can be no assurance, however, that we will be able to do so successfully. Because many dealers specialize in particular products, we may not be able to capitalize on our current dealer relationships in the event we shift our business focus to originating leases of other products. Our failure to successfully enter into new relationships with dealers of other products or to extend existing relationships with such dealers in the event of reduced demand for financing of the systems and equipment we currently lease would have a material adverse effect on us.

Even if we have adequate financing, our expansion strategy may be affected by our limited sources for originations and our inexperience with leasing new products.

Our revenue growth since the third quarter of 2002 has been severely affected by the failure of our former credit facility to renew and the lack of financing until June 2004. Even with our line of credit, our principal growth strategy of expansion into new products and markets may be adversely affected by (i) our inability to re-establish old sources or cultivate new sources of originations and (ii) our inexperience with products with different characteristics from those we currently offer, including the type of obligor and the amount financed.

New Sources. A majority of our leases and contracts were historically originated through a network of dealers that deal exclusively in POS authorization systems. We are currently unable to capitalize on these relationships to originate leases for products other than POS authorization systems. In addition, we lost contact with some of our old sources during the period we suspended originations. Some of these dealers have found other financing sources. We may face difficulties in establishing our relationships with new sources. Our failure to develop additional relationships with dealers of products, which we lease or seek to lease, would hinder our growth strategy.

New Products. Our existing portfolio primarily consists of leases to owner-operated or other small commercial enterprises with little business history and limited or challenged personal credit history. These leases are characterized by small average monthly payments for equipment with limited residual value at the end of the lease term. Our ability to successfully underwrite new products with different characteristics is highly dependent on our ability (i) to successfully analyze the credit risk associated with the users of such products so as to appropriately apply our risk-adjusted pricing and (ii) to utilize our proprietary software to efficiently service and collect on our portfolio. We can give no assurance that we will be able to successfully manage these credit risk issues, which could have a material adverse effect on us.

We may face adverse consequences of litigation, including consequences of using litigation as part of our collection policy.

Our use of litigation as a means of collection of unpaid receivables exposes us to counterclaims on our suits for collection, to class action lawsuits and to negative publicity surrounding our leasing and collection policies. We have been a defendant in attempted class action suits as well as counterclaims filed by individual obligors in attempts to dispute the enforceability of the lease or contract. This type of litigation may be time consuming and expensive to defend, even if not meritorious, may result in the diversion of management time and attention, and may subject us to significant liability for damages or result in invalidation of our proprietary rights. We believe our collection policies and use of litigation comply fully with all applicable laws. Because of our persistent enforcement of our leases and contracts through the use of litigation, we may have created ill will toward us on the part of certain lessees and other obligors who were defendants in such lawsuits. Our litigation strategy has also generated adverse publicity in certain circumstances. Adverse publicity could negatively impact public perception of our business and may materially impact the price of our common stock. In addition to legal proceedings that may arise out of our collection activities, we may face other litigation arising in the ordinary course of business. Any of these factors could adversely affect our business, financial condition and results of operations.

Increased interest rates may make our leases or contracts less profitable.

Since we generally fund our leases and contracts through our credit facilities or from working capital, our operating margins could be adversely affected by an increase in interest rates. For example, borrowings under our amended credit facility bear interest either at Prime plus 1.75% or at LIBOR plus 3.75%, in each case subject to a minimum interest rate of 5% per year. The implicit yield on all of our leases and contracts is fixed due to the leases and contracts having scheduled payments that are fixed at the time of origination. When we originate or acquire leases or contracts, we base our pricing in part on the spread we expect to achieve between the implicit yield on each lease or contract and the effective interest cost we expect to pay when we finance such leases and contracts. Increases in interest rates during the term of each lease or contract could narrow or eliminate the spread, or result in a negative spread, to the extent such lease or contract was financed with variable-rate funding. We may undertake to hedge against the risk of interest rate increases, based on the size and interest rate profile of our portfolio. Such hedging activities, however, would limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. In addition, our hedging activities may not protect us from interest rate-related risks in all interest rate environments. Adverse developments resulting from changes in interest rates or hedging transactions could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to realize our entire investment in the residual interests in the equipment covered by our leases.

At the inception of a lease we record a residual value for the lease equipment as an asset based upon an estimate of the fair market value at lease maturity. There can be no assurance that our estimated residual values will be realized due to technological or economic obsolescence, unusual wear or tear on the equipment, or other factors. Failures to realize the recorded residual values may have a material adverse effect on our business, financial condition and results of operations.

We face intense competition, which could cause us to lower our lease rates, hurt our origination volume and strategic position and adversely affect our financial results.

The microticket leasing and financing industry is highly competitive. We compete for customers with a number of national, regional and local banks and finance companies. Our competitors also include equipment manufacturers that lease or finance the sale of their own products. While the market for microticket financing has traditionally been fragmented, we could also be faced with competition from small- or large-ticket leasing companies that could use their expertise in those markets to enter and compete in the microticket financing market. Our competitors include larger, more established companies, some of which may possess substantially greater financial, marketing and operational resources than us, including lower cost of funds and access to capital markets and other funding sources which may be unavailable to us. If a competitor were to lower its lease rates, we could be forced to follow suit or be unable to regain origination volume, either of which would have a material adverse effect on our business, financial condition and results of operations. In addition, competitors may seek to replicate the automated processes used by us to monitor dealer performance, evaluate lessee credit information, appropriately apply risk-adjusted pricing, and efficiently service a nationwide portfolio. The development of computer software similar to that developed by us may jeopardize our strategic position and allow our competitors to operate more efficiently than we do.

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Government regulation could restrict our business.

Our leasing business is not currently subject to extensive federal or state regulation. While we are not aware of any proposed legislation, the enactment of, or a change in the interpretation of, certain federal or state laws affecting our ability to price, originate or collect on receivables (such as the application of usury laws to our leases and contracts) could negatively affect the collection of income on our leases and contracts, as well as the collection of fee income. Any such legislation or change in interpretation, particularly in Massachusetts, whose laws govern the majority of our leases and contracts, could have a material adverse effect on our ability to originate leases and contracts at current levels of profitability, which in turn could have a material adverse effect on our business, financial condition or results of operations. Changes to the bankruptcy laws that would make it easier for lessees to file for bankruptcy could increase delinquency and defaults on the existing portfolio.

The Sarbanes-Oxley Act of 2002 and related regulations required companies such as us that are not accelerated filers to comply with more stringent internal control system and monitoring requirements beginning as of the end of our fiscal year 2007, and will require us to have our independent auditors attest to these internal control system and monitoring requirements beginning with our annual report for 2009. Compliance with this new requirement has caused us to retain outside consultants to assist management in evaluating our internal control over financial reporting as well as requiring our management to spend a significant amount of time in evaluating the same. Continued compliance with this new requirement may place an expensive burden and significant time constraint on us.

We may face risks in acquiring other portfolios and companies, including risks relating to how we finance any such acquisition or how we are able to assimilate any portfolios or operations we acquire.

A portion of our growth strategy depends on the consummation of acquisitions of leasing companies or portfolios. Our inability to identify suitable acquisition candidates or portfolios, or to complete acquisitions on favorable terms, could limit our ability to grow our business. Any major acquisition would require a significant portion of our resources. The timing, size and success, if at all, of our acquisition efforts and any associated capital commitments cannot be readily predicted. We may finance future acquisitions by using shares of our common stock, cash or a combination of the two. Any acquisition we make using common stock would result in dilution to existing stockholders. If the common stock does not maintain a sufficient market value, or if potential acquisition candidates are otherwise unwilling to accept common stock as part or all of the consideration for the sale of their businesses, we may be required to utilize more of our cash resources, if available, or to incur additional indebtedness in order to initiate and complete acquisitions. Additional debt, as well as the potential amortization expense related to goodwill and other intangible assets incurred as a result of any such acquisition, could have a material adverse effect on our business, financial condition or results of operations. In addition, our credit facilities contain covenants that place significant restrictions on our ability to acquire all or substantially all of the assets or securities of another company, including a limit on the aggregate dollar amount of such acquisitions of $10 million over the term of the facility. These provisions could prevent us from making an acquisition we may otherwise see as attractive, whether by using shares of our common stock as consideration or by using cash.

We also may experience difficulties in the assimilation of the operations, services, products and personnel of acquired companies, an inability to sustain or improve the historical revenue levels of acquired companies, the diversion of management s attention from ongoing business operations, and the potential loss of key employees of such acquired companies. Any of the foregoing could have a material adverse effect on our business, financial condition or results of operations.

If we were to lose key personnel, our operating results may suffer or it may cause a default under our debt facilities.

Our success depends to a large extent upon the abilities and continued efforts of Richard Latour, President and Chief Executive Officer and James R. Jackson, Jr., Vice President and Chief Financial Officer, and our other senior management. We have entered into employment agreements with Mr. Latour and Mr. Jackson, as well as other members of our senior management. The loss of the services of one or more of the key members of our senior management before we are able to attract and retain qualified replacement personnel could have a material adverse effect on our financial condition and results of operations. In addition, under our Sovereign credit facility, an event of default would arise if Mr. Latour or Mr. Jackson were to leave their positions as our Chief Executive Officer or Chief Financial Officer, respectively, unless a suitable replacement were appointed within 90 days. Our failure to comply with these provisions could have a material adverse effect on our business, financial condition or results of operations.

Certain provisions of our articles and bylaws may have the effect of discouraging a change in control or acquisition of the company.

Our restated articles of organization and restated bylaws contain certain provisions that may have the effect of discouraging, delaying or preventing a change in control or unsolicited acquisition proposals that a stockholder might consider favorable, including:(i) provisions authorizing the issuance of blank check preferred stock; (ii) providing for a Board of Directors with staggered terms; (iii) requiring super-majority or class voting to effect certain amendments to the articles and bylaws and to approve certain business combinations; (iv) limiting the persons who may call special stockholders meetings and; (v) establishing advance notice requirements for nominations for election to the Board of Directors or for proposing matters that can be acted upon at stockholders meetings. In addition, certain provisions of Massachusetts law to which we are subject may have the effect of discouraging, delaying or preventing a change in control or an unsolicited acquisition proposal.

Our stock price may be volatile, which could limit our access to the equity markets and could cause you to incur losses on your investment.

If our revenues do not grow or grow more slowly than we anticipate, or if operating expenditures exceed our expectations or cannot be adjusted accordingly, the market price of our common stock could be materially and adversely affected. In addition, the market price of our common stock has been in the past and could in the future be materially and adversely affected for reasons unrelated to our specific business or results of operations. General market price declines or volatility in the future could adversely affect the price of our common stock. In addition, short-term trading strategies of certain investors can also have a significant effect on the price of specific securities. In addition, the trading price of the common stock may be influenced by a number of factors, including the liquidity of the market for the common stock, investor perceptions of us and the equipment financing industry in general, variations in our quarterly operating results, interest rate fluctuations and general economic and other conditions. Moreover, the stock market has experienced significant price and value fluctuations, which have not necessarily been related to corporate operating performance. The volatility of the stock market could adversely affect the market price of our common stock and our ability to raise funds in the public markets.

There is no assurance that we will continue to pay dividends on our common stock in the future.

During the fourth quarter of 2002, our Board of Directors suspended the payment of dividends on our common stock to comply with our banking agreements and we paid no dividends in the years ended December 31, 2003 and 2004. During 2005, we declared dividends of $0.05 per share payable to shareholders of record on five dates, and a special dividend of $0.25 per share payable to shareholders of record on January 31, 2006. During 2006, 2007 and 2008, we declared dividends of $0.20 per share. Future dividend payments are subject to ongoing review and evaluation by our Board of Directors. The decision as to the amount and timing of future dividends we may pay, if any, will be made in light of our financial condition, capital requirements and growth plans, as well as our external financing arrangements and any other factors our Board of Directors may deem relevant. We can give no assurance as to the amount and timing of the payment of future dividends.

Item 2. *Properties*

At December 31, 2008, our corporate headquarters and operations center occupied approximately 24,400 square feet of office space at 10M Commerce Way, Woburn, Massachusetts 01801. The lease for this space expires on December 31, 2010.

Item 3. ***Legal Proceedings***

We are subject to claims and suits arising in the ordinary course of business. At this time, we do not believe these matters will have a material adverse effect on our results of operations or financial position.

Item 4. ***Submission Of Matters to a Vote Of Security Holders***

No matters were submitted to a vote of our security holders during the fourth quarter of our fiscal year ended December 31, 2008.

PART II

Item 5. ***Market For Registrant s Common Equity, Related Stockholder Matters And Issuer Purchases Of Equity Securities***

Market Information

Our common stock, par value $0.01 per share is currently listed on the Nasdaq Global Market under the symbol MFI. Our common stock was previously listed on the American Stock Exchange through the close of business on February 15, 2008, and prior to that on the New York Stock Exchange through the close of business on January 16, 2006, in each case under the same symbol. The following chart shows the high and low sales price of our common stock in each quarter over the past two fiscal years.

	2008				2007			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Stock Price								
High	$ 6.25	$ 5.15	$ 4.93	$ 4.00	$ 6.34	$ 6.52	$ 6.45	$ 6.50
Low	$ 4.60	$ 3.00	$ 3.30	$ 1.50	$ 3.62	$ 4.08	$ 5.14	$ 4.85

Holders

At March 15, 2009, there were approximately 850 stockholders of record of our common stock.

Dividends

During the fourth quarter of 2002, our Board of Directors suspended the payment of dividends to comply with our banking agreements and we paid no dividends during the years ended December 31, 2003 and 2004.

During 2005, we declared dividends of $0.05 per share payable to shareholders of record on each of February 9, 2005, April 29, 2005, July 27, 2005, October 27, 2005 and December 28, 2005, and a special dividend of $0.25 per share payable to shareholders of record on January 31, 2006.

During 2006, we declared dividends of $0.05 per share payable to shareholders of record on each of March 31, 2006, June 30, 2006, September 29, 2006 and December 29, 2006.

During 2007, we declared dividends of $0.05 per share payable to shareholders of record on each of March 30, 2007, June 29, 2007, September 28, 2007 and December 31, 2007.

During 2008, we declared dividends of $0.05 per share payable to shareholders of record on each of May 15, 2008, August 15, 2008, November 14, 2008 and January 19, 2009. The dividend payable on January 19, 2009 was declared on December 24, 2008.

Future dividend payments are subject to ongoing review and evaluation by our Board of Directors. The decision as to the amount and timing of future dividends, if any, will be made in light of our financial condition, capital requirements and growth plans, as well as our external financing arrangements and any other factors our Board of Directors may deem relevant. We can give no assurance as to the amount and timing of future dividends.

Our credit facility also restricts the amount of cash that TimePayment can make available to us for the declaration of dividends on our common stock during any year, to 50% of consolidated net income for the immediately preceding year.

Repurchases

We did not repurchase any of our equity securities during the fourth quarter of fiscal 2008.

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Performance Graph

The following graph compares our cumulative total stockholder return since December 31, 2003 with the American Stock Exchange Composite Stock Index, the S&P 400 Mid-Cap Financials Index and the NASDAQ Composite. Cumulative total stockholder return shown in the performance graph is measured assuming an initial investment of $100 on December 31, 2003 and the reinvestment of dividends. The historic stock price performance information shown in this graph may not be indicative of current stock price levels or future stock price performance.

Comparison of 5 Year Cumulative Total Return
Assumes Initial Investment of $100
December 2008

The information under the caption Performance Graph above is not deemed to be filed as part of this Annual Report, and is not subject to the liability provisions of Section 18 of the Securities Exchange Act of 1934. Such information will not be deemed to be incorporated by reference into any filing we make under the Securities Act of 1933 unless we explicitly incorporate it into such a filing at the time.

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Item 6. *Selected Financial Data*

The following tables set forth selected consolidated financial and operating data for the periods and at the dates indicated. The selected consolidated financial data were derived from our financial statements and accounting records. The data presented below should be read in conjunction with the consolidated financial statements, related notes and other financial information included herein.

	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(Amounts in thousands, except share and per share data)				
Income Statement Data:					
Revenues:					
Income on financing leases	$ 23,095	$ 12,302	$ 3,917	$ 4,140	$ 11,970
Rental income	9,829	13,612	20,897	25,359	31,009
Income on service contracts	925	1,271	1,870	3,467	5,897
Other income(1)	5,676	4,486	5,758	6,318	11,491
Total revenues	39,525	31,671	32,442	39,284	60,367
Expenses:					
Selling, general and administrative	13,060	12,824	14,499	20,884	26,821
Provision for credit losses	15,313	7,855	6,985	10,468	47,918
Depreciation and amortization	976	1,344	5,326	9,497	14,010
Interest	1,020	143	162	1,148	2,283
Total expenses	30,369	22,166	26,972	41,997	91,032
Income (loss) before provision (benefit) for income taxes	9,156	9,505	5,470	(2,713)	(30,665)
Provision (benefit) for income taxes	3,206	3,303	1,555	(1,053)	(20,449)(2)
Net income (loss)	$ 5,950	$ 6,202	$ 3,915	$ (1,660)	$ (10,216)
Net income (loss) per common share:					
Basic	$ 0.42	$ 0.45	$ 0.28	$ (0.12)	$ (0.77)
Diluted	0.42	0.44	0.28	(0.12)	(0.77)
Weighted-average shares:					
Basic	14,002,045	13,922,974	13,791,403	13,567,640	13,182,883
Diluted	14,204,105	14,149,634	13,958,759	13,567,640	13,182,883
Dividends declared per common share	$ 0.20	$ 0.20	$ 0.20	$ 0.50	$

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	December 31,				
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$ 5,047	$ 7,080	$ 28,737	$ 32,926	$ 9,709
Restricted cash	528	561			
Gross investment in leases(3)	158,138	102,128	44,314	33,004	69,181
Unearned income	(49,384)	(35,369)	(13,682)	(3,658)	(6,313)
Allowance for credit losses	(11,722)	(5,722)	(5,223)	(8,714)	(14,963)
Investment in service contracts, net	32	203	613	1,626	4,777
Investment in rental contracts, net	240	106	313	3,025	1,785
Total assets	104,850	70,982	59,721	65,188	71,270
Notes payable	33,325	6,531	5	161	34
Subordinated notes payable				2,602	4,589
Total liabilities	40,512	10,154	3,585	10,501	9,177
Total stockholders equity	64,338	60,828	56,136	54,687	62,093

	December 31,				
	2008	2007	2006	2005	2004
	(Dollars in thousands, except statistical data)				
Other Data:					
Operating Data:					
Value of leases originated(4)	$ 104,529	$ 83,698	$ 33,343	$ 7,296	$ 920
Value of rental contracts originated				1,731	77
Dealer funding(5)	68,007	54,035	21,498	6,364	668
Average yield on leases(6)	28.5%	29.0%	30.0%	30.6%	30.1%
Cash Flows From (Used In):					
Operating activities	$ 43,310	$ 30,440	$ 26,870	$ 35,228	$ 58,694
Investing activities	(69,523)	(55,203)	(22,114)	(6,978)	(813)
Financing activities	24,180	3,106	(8,945)	(5,033)	(54,705)
Net change in cash and cash equivalents	$ (2,033)	$ (21,657)	$ (4,189)	$ (23,217)	$ 3,176
Selected Ratios:					
Return on average assets	6.77%	9.49%	6.27%	(2.43)%	(8.98)%
Return on average stockholders equity	9.51	10.60	7.07	(2.84)	(15.32)
Operating margin(7)	61.91	54.81	38.39	19.74	28.58
Credit Quality Statistics:					
Net charge-offs	$ 9,313	$ 7,356	$ 10,476	$ 16,717	$ 75,967
Net charge-offs as a percentage of average gross investment(8)	7.15%	9.99%	26.34%	30.79%	54.71%
Provision for credit losses as a percentage of average gross	11.76	10.67	17.56	19.28	34.51

investment(8)					
Allowance for credit losses as a percentage of gross investment(9)	7.41	5.59	11.63	25.16	20.23

(1) Includes loss and damage waiver fees, service fees, interest income, and miscellaneous revenue.

(2) Includes an income tax benefit of $7.9 million that resulted from a reduction in our estimate of certain tax liabilities.

(3) Consists of receivables due in installments and estimated residual value.

(4) Represents the amount paid to dealers upon funding of leases plus the associated unearned income.

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(5) Represents the net amount paid to dealers upon funding of leases and contracts.

(6) Represents the aggregate of the implied interest rate on each lease originated during the period weighted by the amount funded.

(7) Represents income before provision (benefit) for income taxes and provision for credit losses as a percentage of total revenues.

(8) Represents a percentage of average gross investment in leases and net investment in service contracts.

(9) Represents allowance for credit losses as a percentage of gross investment in leases and net investment in service contracts.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations, Including Selected Quarterly Financial Data (Unaudited)***

The following discussion includes forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995). When used in this discussion, the words may, will, expect, intend, anticipate, estimate, continue, plan and similar expressions are intended to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements are subject to risks, uncertainties and assumptions, including, among other things, those associated with:

the demand for the equipment types we offer, expansion into new markets and the development of a sizeable dealer base;

our significant capital requirements;

our ability or inability to obtain the financing we need, or to use internally generated funds, in order to continue originating contracts;

the risks of defaults on our leases;

our provision for credit losses;

our residual interests in underlying equipment;

possible adverse consequences associated with our collection policy;

the effect of higher interest rates on our portfolio;

increasing competition;

increased governmental regulation of the rates and methods we use in financing and collecting on our leases and contracts;

acquiring other portfolios or companies;

- dependence on key personnel;
- adverse results in litigation and regulatory matters, or promulgation of new or enhanced legislation or regulations; and
- general economic and business conditions.

The risk factors above and those under Risk Factors beginning on page 7, as well as any other cautionary language included herein, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we described in our forward-looking statements. Many of these factors are significantly beyond our control. We expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. In light of these risks and uncertainties, there can be no assurance that the forward-looking information contained herein will in fact transpire.

Overview

We are a specialized commercial finance company that provides microticket equipment leasing and other financing services. The average amount financed by TimePayment during 2008 was approximately $5,500 while Leasecomm historically financed contracts averaging approximately $1,900. Our portfolio consists of point-of-sale (POS) authorization systems and other small business equipment leased or rented to small commercial enterprises.

We derive the majority of our revenues from leases originated and held by us, payments on service contracts, rental contracts and fee income. Historically, we funded the majority of our leases and contracts through our revolving-credit loans, term loans and on-balance sheet securitizations, and to a lesser extent our subordinated debt program and internally generated funds. Between October 2002 and June 2004, an interruption in our financing sources had a significant impact on our ability to originate contracts. As of September 30, 2002, our then-existing credit facility failed to renew and we began paying down the debt, suspending virtually all new contract originations in October 2002 until new financing could be obtained or until the credit facility could be paid in full. In April 2003, we entered into a long-term agreement with our lenders which waived certain covenant defaults and required us to repay the credit facility over a 22-month term.

In June 2004, we secured a one-year $8 million line of credit and a $2 million three-year subordinated note that allowed us to resume microticket contract originations. In conjunction with raising new capital, we also established a new wholly-owned operating subsidiary, TimePayment Corp. In September 2004, we secured a three-year, $30 million, senior secured revolving line of credit from CIT. The CIT line of credit replaced the $8 million line of credit obtained in June 2004 under more favorable terms and conditions. In addition, we used the proceeds from the CIT line of credit to retire the existing debt with the former bank group. During the year ended December 31, 2005, we began to actively increase our industry presence with a more focused and targeted sales and marketing effort. We continue to invest capital to build an infrastructure to support our sales and marketing initiatives, and have brought in experienced sales and marketing management to spearhead the effort. On July 20, 2007, by mutual agreement between CIT and us, we paid off and terminated the CIT line of credit without penalty.

On August 2, 2007, we entered into a new three-year $30 million line of credit with Sovereign Bank based on qualified TimePayment lease receivables. On July 9, 2008 we entered into an amended agreement to increase our line of credit with Sovereign from $30 million to $60 million. The maturity date of the amended agreement is August 2, 2010. Outstanding borrowings are collateralized by eligible lease contracts and a security interest in all of our other assets and, until February 2009, bore interest at Prime or at LIBOR plus 2.75%. Under the terms of the facility, loans are Prime Rate Loans, unless we elect LIBOR Loans. If a LIBOR Loan is not renewed at maturity it automatically coverts to a Prime Rate Loan.

On February 10, 2009 we entered into an amended agreement to increase our line of credit with Sovereign to $85 million. Under the amended agreement, outstanding borrowings bear interest at either Prime plus 1.75% or LIBOR plus 3.75%, in each case subject to a minimum interest rate of 5%. All other terms of the facility remained the same.

In a typical lease transaction, we originate a lease through our nationwide network of equipment vendors, independent sales organizations and brokers. Upon our approval of a lease application and verification that the lessee has received the equipment and signed the lease, we pay the dealer for the cost of the equipment, plus the dealer s profit margin.

In the past, we have also from time to time acquired service contracts under which a homeowner purchases a security system and simultaneously signs a contract with the dealer for the monitoring of that system for a monthly fee. Upon approval of the monitoring application and verification with the homeowner that the system is installed, we would purchase the right to the payment stream under the monitoring contract from the dealer at a negotiated multiple of the monthly payments. We have not purchased any new security monitoring contracts since 2004, although we do originate security equipment leases that include monitoring. Our service contract portfolio represents a less significant portion of our revenue stream over time.

Substantially all leases originated or acquired by us are non-cancelable. During the term of the lease, we are scheduled to receive payments sufficient to cover our borrowing costs, the cost of the underlying equipment and

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provide us with an appropriate profit. We pass along some of the costs of our leases and contracts by charging collection fees, loss and damage waiver fees, late fees and other service fees, when applicable. The initial non-cancelable term of the lease is equal to or less than the equipment s estimated economic life and often provides us with additional revenues based on the residual value of the equipment at the end of the lease. Initial terms of the leases in our portfolio generally range from 12 to 60 months, with an average initial term of 47 months as of December 31, 2008.

Critical Accounting Policies

We consider certain of our accounting policies to be the most critical to our financial condition and results of operations in the sense that they involve the most complex or subjective decisions or assessments. We have identified our most critical accounting policies as those policies related to revenue recognition, the allowance for credit losses, income taxes and accounting for share-based compensation. These accounting policies are discussed below as well as within the notes to our consolidated financial statements.

Revenue Recognition

Our lease contracts are accounted for as financing leases. At origination, we record the gross lease receivable, the estimated residual value of the leased equipment, initial direct costs incurred and the unearned lease income. Unearned lease income is the amount by which the gross lease receivable plus the estimated residual value exceeds the cost of the equipment. Unearned lease income and initial direct costs incurred are amortized over the related lease term using the interest method. Amortization of unearned lease income and initial direct costs is suspended if, in our opinion, full payment of the contractual amount due under the lease agreement is doubtful. In conjunction with the origination of leases, we may retain a residual interest in the underlying equipment upon termination of the lease. The value of such interest is estimated at inception of the lease and evaluated periodically for impairment. At the end of the lease term, the lessee has the option to buy the equipment at the fair market value, return the equipment or continue to rent the equipment on a month-to-month basis. If the lessee continues to rent the equipment, we record our investment in the rental contract at its estimated residual value. Rental revenue and depreciation are recognized based on the methodology described below. Other revenues such as loss and damage waiver fees and service fees relating to the leases and contracts are recognized as they are earned.

Our investments in cancelable service contracts are recorded at cost and amortized over the expected life of the contract. Income on service contracts from monthly billings is recognized as the related services are provided. Our investment in rental contracts is either recorded at estimated residual value and depreciated using the straight-line method over a period of 12 months or at the acquisition cost and depreciated using the straight line method over a period of 36 months. Rental income from monthly billings is recognized as the customer continues to rent the equipment. We periodically evaluate whether events or circumstances have occurred that may affect the estimated useful life or recoverability of our investments in service and rental contracts.

Allowance for Credit Losses

We maintain an allowance for credit losses on our investment in leases, service contracts and rental contracts at an amount that we believe is sufficient to provide adequate protection against losses in our portfolio. Given the nature of the microticket market and the individual size of each transaction, we do not have a formal credit review committee to review individual transactions. Rather, we developed a sophisticated, risk-adjusted pricing model and have automated the credit scoring, approval and collection processes. We believe that with the proper risk-adjusted pricing model, we can grant credit to a wide range of applicants provided we have priced appropriately for the associated risk. As a result of approving a wide range of credits, we experience a relatively high level of delinquency and write-offs in our portfolio. We periodically review the credit scoring and approval process to ensure that the automated system is making appropriate credit decisions. Given the nature of the microticket market and the individual size of each transaction, we do not evaluate transactions individually for the purpose of developing and determining the adequacy of the allowance for credit losses. Contracts in our portfolio are not re-graded subsequent to the initial extension of credit and the allowance is not allocated to specific contracts. Rather, we view the contracts as having common characteristics and maintain a general allowance against our entire portfolio utilizing historical collection statistics and an assessment of current credit risk in the portfolio as the basis for the amount.

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We have adopted a consistent, systematic procedure for establishing and maintaining an appropriate allowance for credit losses for our microticket transactions. We estimate the likelihood of credit losses net of recoveries in the portfolio at each reporting period based upon a combination of the lessee s bureau reported credit score at lease inception and the current delinquency status of the account. In addition to these elements, we also consider other relevant factors including general economic trends, trends in delinquencies and credit losses, static pool analysis of our portfolio, trends in recoveries made on charged off accounts, and other relevant factors which might affect the performance of our portfolio. This combination of historical experience, credit scores, delinquency levels, trends in credit losses, and the review of current factors provide the basis for our analysis of the adequacy of the allowance for credit losses. We take charge-offs against our receivables when such receivables are deemed uncollectible. In general a receivable is uncollectable when it is 360 days past due where no contact has been made with the lessee for 12 months or, if earlier, when other adverse events occur with respect to an account. Historically, the typical monthly payment under our microticket leases has been small and as a result, our experience is that lessees will pay past due amounts later in the process because of the small amount necessary to bring an account current.

Income Taxes

Significant judgment is required in determining the provision for income taxes, deferred tax assets and liabilities, and the valuation allowance recorded against net deferred tax assets. The process involves summarizing temporary differences resulting from the different treatment of items, such as leases, for tax and accounting purposes. In addition, our income tax calculations involve the application of complex tax regulations in a multitude of jurisdictions. Differences between the basis of assets and liabilities result in deferred tax assets and liabilities, which are recorded on the balance sheet. We must then assess the likelihood that deferred tax assets will be recovered from future taxable income or tax carry-back availability and to the extent management believes recovery is more likely than not, a valuation allowance is unnecessary.

Share-Based Compensation

As of January 1, 2005, we adopted Statement of Financial Accounting Standards (SFAS) 123(R) Share Based Payments, which requires the measurement of compensation cost for all outstanding unvested share-based awards at fair value and recognition of compensation over the service period for awards expected to vest. The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results differ from our estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. We estimate the fair value of stock options using a Black-Scholes valuation model, consistent with the provisions of SFAS 123(R) Securities and Exchange Commission, (SEC) Staff Accounting Bulletin No. 107 Share Based Payments. Key input assumptions used to estimate the fair value of stock options include the expected option term, volatility of our stock, the risk-free interest rate and our dividend yield. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive equity awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by us under SFAS 123(R).

Results of Operations

Revenues

	2008	Change	2007	Change	2006
			(In thousands)		
Income on financing leases	$ 23,095	87.7%	$ 12,302	214.1%	$ 3,917
Rental income	9,829	(27.8)	13,612	(34.9)	20,897

Income on service contracts	925	(27.2)	1,271	(32.0)	1,870
Loss and damage waiver fees	3,236	59.2	2,033	7.3	1,895
Service fees and other	2,300	45.9	1,576	(35.6)	2,448
Interest income	140	(84.0)	877	(38.0)	1,415
Total revenues	$ 39,525	24.8%	$ 31,671	(2.4)%	$ 32,442

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Our lease contracts are accounted for as financing leases. At origination, we record the gross lease receivable, the estimated residual value of the leased equipment, initial direct costs incurred and the unearned lease income. Unearned lease income is the amount by which the gross lease receivable plus the estimated residual value exceeds the cost of the equipment. Unearned lease income and initial direct costs incurred are amortized over the related lease term using the interest method. Other revenues such as loss and damage waiver fees, service fees relating to the leases and contracts, and rental revenues are recognized as they are earned.

Total revenues for the year ended December 31, 2008 were $39.5 million, an increase of $7.8 million or 24.8% from the year ended December 31, 2007. Revenue from leases was $23.1 million, up $10.8 million from the previous year as a result of the increased originations. Rental income was $9.8 million, down $3.8 million from 2007. Other revenue components contributed $6.6 million, up $0.8 million from the previous year, despite a decline in interest income of $737,000 during the year. The decrease in interest income is a result of the decrease in cash and cash equivalents on hand as well as lower rates of investment. The decline in rental income is primarily explained by attrition rates in the two sources of rental income. One source is rental agreements that are originated and cancellable on a monthly basis. The other is the rental income that is recognized at the end of the lease term when a lessee chooses to keep the equipment and rents it on a monthly basis. Since we resumed funding in 2004 following an interruption in our funding sources, we have not originated any new rental contracts and few lease contracts have been eligible to convert to rental agreements since they have not reached the end of term. We have not funded any new service contracts since we resumed funding in 2004; therefore this segment of revenue continues to decline.

Total revenues for the year ended December 31, 2007 were $31.7 million, a decrease of $771,000 or 2.4% from the year ended December 31, 2006. Revenue from leases was $12.3 million, up $8.4 million from the previous year and rental income was $13.6 million, down $7.3 million from 2006. Other revenue components contributed $5.8 million, down $1.9 million from the previous year. The decline in service contract revenue accounted for $599,000 of the $1.9 million decrease in other revenue while decreases in service fees and interest income accounted for $872,000 and $538,000 of the decline respectively. The decline in rental income is primarily explained by attrition rates in the two sources of rental income described above. In addition, the decline in income from service contracts is consistent with the lack of any new service contract originations since we resumed funding in 2004.

Selling, General and Administrative

	2008	Change	2007	Change	2006
			(Dollars in thousands)		
Selling, general and administrative	$ 13,060	1.8%	$ 12,824	(11.6)%	$ 14,499
As a percent of revenue	33.0%		40.5%		44.7%

Our selling, general and administrative (SG&A) expenses include costs of maintaining corporate functions such as accounting, finance, collections, legal, human resources, sales and underwriting, and information systems. SG&A expenses also include commissions, service fees and other marketing costs associated with our portfolio of leases and rental contracts. SG&A expenses increased by $236,000 or 1.8%, for the year ended December 31, 2008, as compared to the year ended December 31, 2007. Significant factors in the increase of the SG&A expense include increases in: payroll and employee benefits of $171,000; bank service charges of $172,000; marketing and promotion expenses of $122,000; collection expenses of $120,000; and postage expense of $111,000. These increases were offset in part by decreases in: professional fees of $262,000; debt closing expense of $150,000; and sales programs of $105,000.

SG&A expenses decreased by $1.7 million, or 11.6%, for the year ended December 31, 2007, as compared to the year ended December 31, 2006. Significant factors in the decline of the SG&A expense included declines in legal expenses of $405,000 and collection expenses of $1.1 million. The expense reductions resulted from the decrease in the overall volume of our portfolio, an improvement in the credit quality of our portfolio, the settlement of outstanding litigation and our cost control efforts.

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Provision for Credit Losses

	2008	Change	2007	Change	2006
			(Dollars in thousands)		
Provision for credit losses	$ 15,313	94.9%	$ 7,855	12.5%	$ 6,985
As a percent of revenue	38.7%		24.8%		21.5%

We maintain an allowance for credit losses on our investment in leases, service contracts and rental contracts at an amount that we believe is sufficient to provide adequate protection against losses in our portfolio. Our provision for credit losses increased $7.5 million or 94.9%, for the year ended December 31, 2008, as compared to the year ended December 31, 2007. Net charge-offs increased $1.9 million to $9.3 million, or 25.7%, for the year ended December 31, 2008, as compared to the year ended December 31, 2007. The provision was based on providing a general allowance against leases funded during the year and our analysis of actual and expected losses in our portfolio as a whole. The increase in the allowance reflects the growth in lease receivables associated with new lease originations, increased delinquency levels, and the current economic climate.

Our provision for credit loss increased $870,000 or 12.5%, for the year ended December 31, 2007, as compared to the year ended December 31, 2006. Net charge-offs decreased $3.1 million to $7.4 million, or 29.8%, for the year ended December 31, 2007, as compared to the year ended December 31, 2006. The provision was based on providing a general allowance against leases funded during the year and our analysis of actual and expected losses in our portfolio as a whole.

Depreciation and Amortization

	2008	Change	2007	Change	2006
			(Dollars in thousands)		
Depreciation fixed assets	$ 383	36.8%	$ 280	38.6%	$ 202
Depreciation rental equipment	415	(40.3)	695	(83.1)	4,108
Amortization service contracts	178	(51.8)	369	(63.7)	1,016
Total depreciation and amortization	$ 976	(27.4)%	$ 1,344	(74.8)%	$ 5,326
As a percent of revenue	2.5%		4.2%		16.4%

Depreciation and amortization expense consists of depreciation on fixed assets and rental equipment, and the amortization of service contracts. Fixed assets are recorded at cost and depreciated over their expected useful lives. Certain rental contracts are originated as a result of the renewal provisions of our lease agreements where at the end of the lease term, the customer may elect to continue to rent the leased equipment on a month-to-month basis. The rental equipment is recorded at its residual value and depreciated over a term of 12 months. This term represents the estimated life of a previously leased piece of equipment and is based upon our historical experience. In the event the contract terminates prior to the end of the 12 month period, the remaining net book value is expensed.

We have in the past offered a rental agreement, which allowed the customer, assuming the contract was current and no event of default existed, to terminate the contract at any time by returning the equipment and providing us with 30 days notice. These assets were recorded at cost and depreciated over an estimated life of 36 months. This term was based upon our historical experience. In the event that the contract terminated prior to the end of the 36 month period, the remaining net book value was expensed. We have not originated any new rental contracts since 2004.

Service contracts were recorded at cost and amortized over their estimated life of 84 months. In a typical service contract acquisition, a homeowner will purchase a home security system and simultaneously sign a contract with the security dealer for monthly monitoring of the system. The security dealer would then sell the rights to that monthly payment to us. We perform all of the processing, billing, collection and administrative work on the service contract. The estimated life is based upon the expected life of such contracts in the security monitoring industry and our historical experience. In the event the contract terminates prior to the end of the 84 month term, the remaining net book value is expensed. We have not originated any new service contracts since 2004.

Depreciation expense on rentals decreased by $280,000 or 40.3%, and amortization of service contracts decreased by $191,000 or 51.8%, for the year ended December 31, 2008, as compared to the year ended December 31, 2007. The carrying value of our rental equipment and service contracts decreased from $309,000 at December 31, 2007 to $272,000 at December 31, 2008. Depreciation on property and equipment increased by $103,000 or 36.8% for the year ended December 31, 2008, as compared to the year ended December 31, 2007.

Depreciation expense on rentals decreased by $3.4 million, or 83.1%, and amortization of service contracts decreased by $647,000, or 63.7%, for the year ended December 31, 2007, as compared to the year ended December 31, 2006. The carrying value of our rental equipment and service contracts decreased from $926,000 at December 31, 2006 to $309,000 at December 31, 2007. Depreciation on property and equipment increased by $78,000 or 38.6% for the year ended December 31, 2007, as compared to the year ended December 31, 2006.

Interest Expense

	2008	Change	2007	Change	2006
			(Dollars in thousands)		
Interest	$ 1,020	613.3%	$ 143	(11.7)%	$ 162
As a percent of revenue	2.6%		0.5%		0.5%

We pay interest on borrowings under our line of credit. Interest expense increased by $877,000 or 613.3% for the year ended December 31, 2008, as compared to the year ended December 31, 2007. This increase resulted primarily from the increased borrowings on our line of credit. At December 31, 2008, we had notes payable of $33.3 million compared to notes payable of $6.5 million at December 31, 2007.

Interest expense decreased by $19,000, or 11.7% for the year ended December 31, 2007, as compared to the year ended December 31, 2006. This decrease resulted primarily from the reduction in the interest expense related to the amortization of debt discount related to the warrants we issued to CIT in connection with our 2004 line of credit. At December 31, 2007, we had notes payable of $6.5 million compared to notes payable of $5,000 at December 31, 2006.

Provision for Income Taxes

	2008	Change	2007	Change	2006
			(In thousands)		
Provision for income taxes	$ 3,206	(2.9)%	$ 3,303	112.4%	$ 1,555
As a percent of revenue	8.1%		10.4%		4.8%

The provision for income taxes, deferred tax assets and liabilities and any necessary valuation allowance recorded against net deferred tax assets, involves summarizing temporary differences resulting from the different treatment of items, such as leases, for tax and accounting purposes. These differences result in deferred tax assets and liabilities which are recorded on the balance sheet. We must then assess the likelihood that deferred tax assets will be recovered from future taxable income or tax carry-back availability and to the extent we believe recovery is more likely than not, a valuation allowance is unnecessary.

The provision for income taxes decreased by $97,000, or 2.9%, for the year ended December 31, 2008, as compared to the year ended December 31, 2007. This decrease resulted primarily from the $349,000 decrease in income before income taxes. The effective tax rate for the year ended December 31, 2008 was 35.0% compared to 34.8% for the year ended December 31, 2007.

The provision for income taxes increased by $1.7 million, or 112.4%, for the year ended December 31, 2007, as compared to the year ended December 31, 2006. This increase resulted primarily from the $4.0 million increase in income before income taxes. The effective tax rate for the year ended December 31, 2007 was 34.8% compared to 28.4% for the year ended December 31, 2006. The primary reason for the increase in the rate is that we recognized a 7.03% decrease in the 2006 effective tax rate due to the settlement of an IRS audit.

Our 1997 through 2003 tax years were audited by the Internal Revenue Service. As part of the audit, the Internal Revenue Service Agent had proposed several adjustments to our federal income tax returns that would have

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required us to pay the IRS an amount between $8 and $10 million. Such payments would have been offset by an adjustment to our deferred tax asset as the amount would likely have been recoverable in future periods. We filed a formal protest under the appeals process challenging these adjustments and reached a final settlement in December 2006 which required us to pay $31,000 in additional taxes and $9,000 in interest.

Other Operating Data

Dealer fundings were $69 million during the year ended December 31, 2008, an increase of $14.4 million or 26%, compared to the year ended December 31, 2007. This increase is a result of our continuing effort to increase originations through business development efforts that include increasing the size of our vendor base and sourcing a larger number of applications from those vendors. We funded these contracts using cash provided by operating activities as well as net borrowings of $26.8 million against our lines of credit. Receivables due in installments, estimated residual values, net investment in service contracts, and investment in rental equipment increased from $107.5 million at December 31, 2007 to $162.1 million at December 31, 2008, an increase of $54.6 million, or 51%. Unearned income increased by $14 million, or 39.5%, from $35.4 million at December 31, 2007 to $49.4 million at December 31, 2008. This increase was due to the $69 million in originations in 2008, representing a substantial increase over 2007. Net cash provided by operating activities increased by $12.9 million, or 43%, to $43.3 million during the year ended December 31, 2008, from the year ended December 31, 2007 because of the increase in originations.

Dealer fundings were $54.6 million during the year ended December 31, 2007, an increase of $33.1 million or $154%, compared to the year ended December 31, 2006. This increase was a result of our continuing effort to increase originations through business development efforts noted above. We funded these contracts using cash provided by operating activities as well net borrowings of $6.5 million against our lines of credit. Receivables due in installments, estimated residual values, net investment in service contracts, and investment in rental equipment increased from $52.3 million at December 31, 2006 to $107.5 million at December 31, 2007, an increase of $55.2 million, or 105.5%. Unearned income increased by $21.7 million, or 158.5%, from $13.7 million at December 31, 2006 to $35.4 million at December 31, 2007. This increase was due to the $54.6 million in originations in 2007, representing a substantial increase over 2006. Net cash provided by operating activities increased by $3.6 million, or 13.3%, to $30.4 million during the year ended December 31, 2007, from the year ended December 31, 2006 because of the increase in originations.

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Selected Quarterly Data

The following is a summary of our unaudited quarterly results of operations for 2008 and 2007. This unaudited quarterly information was prepared on the same basis as the audited Consolidated Financial Statements and, in the opinion of our management, reflects all necessary adjustments, consisting only of normal recurring items, necessary for a fair presentation of the information for the periods presented. The quarterly operating results are not necessarily indicative of future results of operations, and you should read them in conjunction with the audited Consolidated Financial Statements and Notes thereto included elsewhere in this Annual Report on Form 10-K.

	2008				2007			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues:								
Income on leases	$ 4,940	$ 5,596	$ 6,030	$ 6,529	$ 2,033	$ 2,653	$ 3,406	$ 4,210
Rental income	2,752	2,484	2,330	2,263	3,924	3,514	3,268	2,906
Income on service contracts	259	240	221	205	361	329	303	278
Loss and damage waiver fees	688	768	849	931	444	473	524	592
Service fees and other	549	532	632	587	386	330	415	445
Interest income	60	27	23	30	323	247	182	125
Total revenues	9,248	9,647	10,085	10,545	7,471	7,546	8,098	8,556
Expenses:								
Selling, general and administrative	3,239	3,198	3,260	3,363	3,568	3,158	3,134	2,964
Provision for credit losses	3,357	3,060	3,782	5,114	1,523	1,677	1,919	2,736
Depreciation and amortization	230	230	245	271	463	347	288	246
Interest	152	234	310	324	13	13	13	104
Total expenses	6,978	6,722	7,597	9,072	5,567	5,195	5,354	6,050
Income before provision for income taxes	2,270	2,925	2,488	1,473	1,904	2,351	2,744	2,506
Provision for income taxes	713	1,053	905	535	687	902	941	773
Net income	$ 1,557	$ 1,872	$ 1,583	$ 938	$ 1,217	$ 1,449	$ 1,803	$ 1,733
Net income per common share basic	$ 0.11	$ 0.13	$ 0.11	$ 0.07	$ 0.09	$ 0.10	$ 0.13	$ 0.12
	0.11	0.13	0.11	0.07	0.09	0.10	0.13	0.12

Net income per common share diluted							
Dividends declared per common share	0.05	0.05	0.10	0.05	0.05	0.05	0.05

Exposure to Credit Losses

The amounts in the table below represent the balance of delinquent receivables on an exposure basis for all leases, rental contracts and service contracts in our portfolio as of December 31, 2008, 2007 and 2006. An exposure basis aging classifies the entire receivable based on the invoice that is the most delinquent. For example, in the case of a rental or service contract, if a receivable is 90 days past due, all amounts billed and unpaid are placed in the over 90 days past due category. In the case of lease receivables, where the minimum contractual obligation of the lessee is booked as a receivable at the inception of the lease, if a receivable is 90 days past due, the entire receivable, including all amounts billed and unpaid as well as the minimum contractual obligation yet to be billed, will be placed in the over 90 days past due category.

	December 31, 2008		December 31, 2007 (Dollars in thousands)		December 31, 2006	
Current	$ 110,423	77.3%	$ 75,528	81.8%	$ 29,027	71.8%
31-60 days past due	6,941	4.8	4,565	5.0	1,607	4.0
61-90 days past due	5,079	3.6	3,016	3.2	825	2.0
Over 90 days past due	20,438	14.3	9,205	10.0	8,996	22.2
Receivables due in installments	$ 142,881	100.0%	$ 92,314	100.0%	$ 40,455	100.0%

Liquidity and Capital Resources

General

Our lease and finance business is capital-intensive and requires access to substantial short-term and long-term credit to fund lease originations. Since our inception, we have funded our operations primarily through borrowings under our credit facilities, on-balance sheet securitizations, the issuance of subordinated debt, free cash flow and the proceeds from our initial public offering completed in February 1999. We will continue to require significant additional capital to maintain and expand our funding of leases and contracts, as well as to fund any future acquisitions of leasing companies or portfolios. In the near term, we expect to finance our business utilizing the cash on hand and our line of credit which matures in August 2010. Additionally, our uses of cash include the payment of interest and principal on borrowings, selling, general and administrative expenses, income taxes, payment of dividends, and capital expenditures.

We generated cash flow from operations of $43.3 million for the year ended December 31, 2008, $30.4 million for the year ended December 31, 2007, and $26.9 million for the year ended December 31, 2006.

Net cash used in investing activities was $69.5 million for the year ended December 31, 2008, $55.2 million for the year ended December 31, 2007 and $22.1 million for the year ended December 31, 2006. Investing activities primarily relate to the origination of leases with investments in lease contracts, direct costs, property, and equipment.

Net cash provided by financing activities was $24.1 million for the year ended December 31, 2008 and $3.1 million for the year ended December 31, 2007. Net cash used by financing activities was $8.9 million for the year ended December 31, 2006. Financing activities includes borrowings from and repayments on our various financing sources. We repaid $60.7 million during 2008, $5.1 million during 2007, and $2.9 million during 2006. In addition, we paid dividends of $2.8 million in 2008, $2.8 million in 2007 and $6.2 million in 2006.

We believe that cash flows from our existing portfolio, cash on hand, available borrowings on the existing credit facility, and additional financing as required will be sufficient to support our operations and lease origination activity in the near term.

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Borrowings

We utilize our line of credit to fund the origination and acquisition of leases. Borrowings outstanding under our lines of credit consist of the following:

	December 31, 2008				December 31, 2007			
	Amounts Outstanding	Interest Rate	Unused Capacity	Maximum Facility Amount	Amounts Outstanding	Interest Rate	Unused Capacity	Maximum Facility Amount
	(Dollars in 000)							
Revolving credit facility(1)	$ 33,325	3.25%	$ 26,675	$ 60,000	$ 6,531	7.25%	$ 23,469	$ 30,000

(1) The unused capacity is subject to limitations based on lease eligibility and the borrowing base formula.

On August 2, 2007, we entered into a new three-year $30 million line of credit with Sovereign based on qualified lease receivables. On July 9, 2008 we entered into an amended agreement to increase our line of credit with Sovereign to $60 million. The maturity date of the amended agreement is August 2, 2010. Outstanding borrowings are collateralized by eligible lease contracts and a security interest in all of our other assets and, until February 2009, bore interest at Prime or the 90-day London Interbank Offered Rate (LIBOR) plus 2.75%. At December 31, 2008 all of our loans were Prime Rate Loans. The Prime at December 31, 2008 was 3.25%. As of December 31, 2008 the qualified lease receivables eligible under the borrowing base exceeded the $60 million line of credit. The line of credit has financial covenants that we must comply with to obtain funding and avoid an event of default. As of December 31, 2008, we were in compliance with all covenants under the line of credit.

On February 10, 2009 we entered into an amended agreement to increase our line of credit with Sovereign to $85 million. Under the amended agreement, outstanding borrowings bear interest at Prime plus 1.75% or LIBOR plus 3.75%, subject in each case to a minimum interest rate of 5%. All other terms of the facility remained the same.

Prior to entering into the Sovereign facility, we had a three-year senior secured revolving line of credit with CIT where we could borrow a maximum of $30 million based upon qualified lease receivables. Outstanding borrowings bore interest at Prime plus 1.5% for Prime Rate Loans or at LIBOR plus 4.0% for LIBOR loans. As of December 31, 2006, based on lease eligibility and the borrowing base formula, we had $20.8 million in excess availability on the CIT line of credit. On July 20, 2007, by mutual agreement between CIT and us, we paid off and terminated the CIT line of credit without penalty, and CIT released its security interests and liens.

Prior to obtaining the $30 million CIT line of credit in September 2004, we had borrowings outstanding under a $192 million senior credit facility with a group of financial institutions, which failed to renew in September 2002. While cash flows from our portfolio were sufficient to repay borrowings under the $192 million senior credit facility, we were forced to suspend virtually all contract originations until a new source of liquidity was obtained. As of December 31, 2004, the loan under the $192 million senior credit facility had been fully repaid.

We have periodically in the past financed our lease and service contracts through securitizations using special purpose entities. When we use this financing alternative, the assets of these special purpose entities were not available to pay our other creditors. However, the special purpose entities were included in our consolidated financial statements under generally accepted accounting principles. As a result, such assets and the related liabilities remain on our balance sheet and do not receive gain on sale treatment. The amounts borrowed under our securitization agreements were fully repaid as of December 31, 2004 and the special purpose entities associated with these agreements were subsequently dissolved.

Financial Covenants

Our Sovereign line of credit, like our prior facilities, has financial covenants that must be complied with in order to obtain funding through the facility and to avoid an event of default. These include requirements that we (i) maintain a ratio of our consolidated net earnings before interest, taxes and non-recurring non-cash items, as calculated under the agreement, to our consolidated interest expense of not less than 2:1 as of the end of any fiscal quarter; (ii) maintain consolidated tangible capital base (defined to mean our consolidated tangible net worth, as calculated under the agreement, plus subordinated debt) at minimum levels, which are increased from quarter to quarter in relation to our net income and any equity capital we receive; (iii) maintain a leverage ratio (defined to mean the ratio of consolidated total liabilities, less subordinated debt, to consolidated tangible net worth, plus subordinated debt) of 3.75:1 during fiscal 2009 and 4:1 during 2010; and (iv) not permit the amount of receivables over 90 days past due to exceed 18.75% of gross lease installments. The line of credit also contains other affirmative and negative covenants, including a restriction on our ability to incur or guaranty indebtedness, dispose of or acquire assets or engage in a merger transaction, or make certain restricted payments. As of December 31, 2008, we believe that we were in compliance with all covenants in our borrowing relationships.

Contractual Obligations and Lease Commitments

The following table summarizes our contractual cash obligations at December 31, 2008 and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in thousands):

Contractual Obligations	**Total**	**Payments Due Less than 1 Year**	**Payments Due 1-3 Years**	**Payments Due 4-5 Years**	**Payments Due After 5 Years**
Revolving line of credit	$ 33,325	$ 33,325	$ 0	$ 0	$ 0
Operating lease obligations	474	237	237	0	0
Capital lease obligations	132	59	73	0	0
Total	$ 33,391	$ 33,621	$ 310	$ 0	$ 0

Contractual Obligations

We have entered into various agreements, such as debt and operating lease agreements that require future payments. During the year ended December 31, 2008 we had net borrowings of $26.8 million against our line of credit. The $33.3 million of outstanding borrowings as of December 31, 2008 will be repaid by the daily application of TimePayment receipts to our outstanding balance. Our future minimum lease payments under non-cancelable operating leases are $237,000 annually for the years 2009 through 2010. Our future minimum lease payments under capital leases are $59,000, $59,000 and $14,000 for the years ended December 31, 2009, 2010 and 2011 respectively.

Lease Commitments

We accept lease applications on daily basis and have a pipeline of applications that have been approved, where a lease has not been originated. Our commitment to lend does not become binding until all of the steps in the lease origination process have been completed, including but not limited to the receipt of a complete and accurate lease document, all required supporting information and successful verification with the lessee. Since we fund on the same day a lease is successfully verified, we have no firm outstanding commitments to lend.

Market Risk and Financial Instruments

The following discussion about our risk management activities includes forward-looking statements that involve risk and uncertainties. Actual results could differ materially from those projected in the forward-looking statements. In the normal course of operations, we also face risks that are either non-financial or non-quantifiable. Such risks principally include credit risk and legal risk, and are not represented in the analysis that follows.

The implicit yield on all of our leases and contracts is on a fixed interest rate basis due to the leases and contracts having scheduled payments that are fixed at the time of origination. When we originate or acquire leases or contracts, we base our pricing in part on the spread we expect to achieve between the implicit yield on each lease or contract and the effective interest rate we expect to incur in financing such lease or contract through our credit facility. Increases in interest rates during the term of each lease or contract could narrow or eliminate the spread, or result in a negative spread.

Given the relatively short average life of our leases and contracts, our goal is to maintain a blend of fixed and variable interest rate obligations which limits our interest rate risk. As of December 31, 2008, we have repaid all of

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our fixed-rate debt and have $33.3 million of outstanding variable interest rate obligations under our Sovereign line of credit.

Our Sovereign line of credit bears interest at rates which fluctuate with changes in the Prime or the LIBOR; therefore, our interest expense is sensitive to changes in market interest rates. The effect of a 10% adverse change in market interest rates, sustained for one year, on our interest expense would be immaterial.

We maintain an investment portfolio in accordance with our investment policy guidelines. The primary objectives of the investment guidelines are to preserve capital, maintain sufficient liquidity to meet our operating needs, and to maximize return. We minimize investment risk by limiting the amount invested in any single security and by focusing on conservative investment choices with short terms and high credit quality standards. We do not use derivative financial instruments or invest for speculative trading purposes.

Recently Issued Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), Fair Value Measurements, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. Earlier adoption is permitted, provided the company has not yet issued financial statements, including for interim periods, for that fiscal year. The FASB has agreed to defer the effective date of SFAS 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, for one year. SFAS 157 was adopted by the Company for financial assets and liabilities during the first quarter of fiscal 2008 with no material effect on the Company s financial statements. SFAS 157 will be adopted during the first quarter of 2009 for non-financial assets and liabilities with no material impact on the Company s financial statements anticipated.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board s long-term measurement objectives for accounting for financial instruments. This Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. This Statement does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. This Statement does not establish requirements for recognizing and measuring dividend income, interest income, or interest expense nor does it eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in FASB Statements No. 157, Fair Value Measurements, and No. 107, Disclosures about Fair Value of Financial Instruments. This Statement is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. SFAS 159 was adopted by the Company during the first quarter of fiscal 2008 but the Company chose not to apply the provisions of SFAS 159 to any assets or liabilities.

In December 2007, the FASB issued SFAS No. 141(R) Business Combinations (SFAS 141R). SFAS 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. SFAS 141R also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. The Company believes that this new pronouncement will have an impact on our accounting for future business combinations once adopted, but the effect is dependent upon the acquisitions that are made in the future.

In December 2007, FASB issued SFAS 160, Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51. This statement addresses consolidation rules for noncontrolling interests. The objective is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It applies to all entities, but will affect only entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. Statement 160 is effective as of the beginning of fiscal years that begin on or after December 15, 2008. We believe the adoption of this standard will not have a material impact on our consolidated financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB statement No. 133. This statement applies to all derivative instruments and related hedge items accounted for under SFAS No. 133. Entities are required to provide enhanced disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedge items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedge items affect an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. We believe the adoption of this standard will not have a material impact on our consolidated financial position or results of operations.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of General Accepted Accounting Principles. This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparations of financial statements of nongovernmental entities that are presented in conformity with GAAP in the United States (the GAAP hierarchy). SFAS No. 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, the Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The FASB Board does not expect this statement will result in a change in current practice.

In June 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards (EITF 06-11), which requires income tax benefits from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity classified nonvested shares, nonvested equity share units and outstanding equity share options to be recognized as an increase in additional paid-in capital and to be included in the pool of excess tax benefits available to absorb potential future tax deficiencies on share based payment awards. The adoption of EITF 06-11 becomes effective in 2008 and impacts unvested restricted stock. EITF 06-11 was adopted by the Company for financial assets and liabilities during the first quarter of fiscal 2008 with no material effect on the Company s financial statements.

In June 2008, the FASB issued Staff Position EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF 03-6-1), effective for fiscal years beginning after December 15, 2008. FSP EITF 03-6-1 clarifies that unvested share-based awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in computation of EPS pursuant to the two class method. We believe adoption of this EITF will not have a material impact on our consolidated financial position or results of operations.

In June 2008, the FASB issued Staff Position EITF 07-05, Determining Whether Instrument (or Embedded Feature) is Indexed to an Entity s Own Stock (FSP EITF 07-05), effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. This Issue addresses the determination of whether an in instrument (or an embedded feature) is indexed to an entity s own stock. If an instrument (or an embedded feature) that has the characteristics of a derivative instrument under the relative paragraphs of Statement 133 is indexed to an entity s own stock, it is still necessary to evaluate whether it is classified in stockholders equity (or would be classified in stockholders equity if it were a freestanding instrument). The guidance in this Issue shall be applied to outstanding instruments as of the beginning of the fiscal year in which this Issue is initially applied. The cumulative effect of the change in accounting principle shall be recognized as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that fiscal year, presented separately. However, in circumstances in which a previously bifurcated embedded conversion option in a convertible debt instrument no longer meets the bifurcation criteria in Statement 133 at initial application of this Issue, the carrying amount of the liability for the conversion option (that is, its fair value on the date of adoption) shall be reclassified to shareholders equity. Any debt discount that was recognized when the conversion option was initially bifurcated from the convertible debt instrument shall continue to be amortized. Earlier application by an entity that has previously adopted an alternative accounting policy is not permitted. We believe adoption of this EITF will not have a material impact on our consolidated financial position or results of operations.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

See Item 7, under the caption Market Risk and Financial Instruments.

Item 8. *Financial Statements and Supplementary Data*

Our Financial Statements, together with the related report of our Independent Registered Public Accounting Firm, appear on pages F-1 through F-23 of this Form 10-K.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

Not applicable.

Item 9A. *Controls and Procedures*

Disclosure controls and procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act. Based upon the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

Management s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting is defined as a process designed by, or under the supervision of, our executive officers and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Under the supervision and with the participation of our management, including our executive officers, we assessed as of December 31, 2008, the effectiveness of our internal control over financial reporting. This assessment was based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment using those criteria, our management concluded that our internal control over financial reporting as of December 31, 2008 was effective.

Change in Internal Control over Financial Reporting

During the fourth quarter of our fiscal year ended December 31, 2008, no changes were made in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. ***Other Information***

Not applicable.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

The sections, Section 16(a) Beneficial Ownership Reporting Compliance, Governance of the Corporation and Proposal 1 Election of Directors, included in our proxy statement for the 2009 Special Meeting in Lieu of Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission on or before April 30, 2009, are hereby incorporated by reference.

Item 11. *Executive Compensation*

The sections, Compensation Discussion and Analysis, Compensation Committee Report, Compensation of Executive Officers and Compensation of Directors included in our proxy statement for the 2009 Special Meeting in Lieu of Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission on or before April 30, 2009, are hereby incorporated by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The section, Security Ownership of Certain Beneficial Owners and Management, included in our proxy statement for the 2009 Special Meeting in Lieu of Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission on or before April 30, 2009, is hereby incorporated by reference.

The following table summarizes information, as of December 31, 2008, relating to our equity compensation plans pursuant to which grants of options, restricted stock, restricted stock units or other rights to acquire shares may be granted from time to time.

Equity Compensation Plan Information

Plan Category	**Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)**	**Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights(2) (b)**	**Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)**
Equity compensation plans approved by security holders(1)	1,442,067	$ 8.78	969,271
Equity compensation plans not approved by security holders			
Total	1,442,067	$ 8.78	969,271

(1) Includes our 1998 Equity Incentive Plan (which was approved by stockholders at the 2001 special meeting of stockholders in lieu of annual meeting) and our 2008 Equity Incentive Plan (which was approved by our stockholders at the 2008 special meeting of stockholders in lieu of annual meeting). The number of securities available for future issuance will be reduced by three for each share of restricted stock or other full share award made to an employee of the Company, and by one for any option granted or for any award made to non-employee directors, under the terms of our 2008 Equity Incentive Plan.

(2) Weighted average exercise price of outstanding options; excludes restricted stock.

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Item 13. ***Certain Relationships and Related Transactions and Director Independence***

The sections Governance of the Corporation Certain Relationships and Related Person Transactions and Determination of Director Independence included in our proxy statement for the 2009 Special Meeting in Lieu of Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission on or before April 30, 2009, are hereby incorporated by reference.

Item 14. ***Principal Accountant Fees and Services***

The section Proposal 2 Ratification of the Selection of MicroFinancial s Independent Registered Public Accounting Firm, included in our proxy statement for the 2009 Special Meeting in Lieu of Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission on or before April 30, 2009, is hereby incorporated by reference.

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PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) (1) Financial Statements

Our Financial Statements, together with the related report of the Independent Registered Public Accounting Firm, appear at pages F-1 through F-26 of this Form 10-K

(2) None

(3) Exhibits Index

Exhibit Number	**Description**
3.1	Restated Articles of Organization, as amended. Incorporated by reference to the Exhibit with the same exhibit number in the Registrant s Registration Statement on Form S-1 (Registration Statement No. 333-56639) filed with the Securities and Exchange Commission on June 9, 1998.
3.2	Restated Bylaws, as amended. Incorporated by reference to Exhibit 3.2 in the Registrant s Annual Report on Form 10- K filed with the Securities and Exchange Commission on March 28, 2007.
10.1	Warrant Purchase Agreement dated April 14, 2003 among the Company, Fleet National Bank, as agent, and the other Lenders named therein. Incorporated by reference to Exhibit 10.2 in the Registrant s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 15, 2003.
10.2	Form of Warrants to purchase Common Stock of the Company issued April 14, 2003. Incorporated by reference to Exhibit 10.3 in the Registrant s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 15, 2003.
10.3	Co-Sale Agreement dated April 14, 2003 among the Company, Peter R. Bleyleben, Torrence C. Harder, Brian E. Boyle, Richard F. Latour, Alan J. Zakon, and James R. Jackson, Jr., and the Lenders named therein. Incorporated by reference to Exhibit 10.4 in the Registrant s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 15, 2003.
10.4	Registration Rights Agreement dated April 14, 2003 among the Company and the Lenders named therein. Incorporated by reference to Exhibit 10.5 in the Registrant s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 15, 2003.
10.5.1	Commercial Lease, dated November 3, 1998, between Cummings Properties Management, Inc. and MicroFinancial Incorporated. Incorporated by reference to Exhibit 10.25 in the Registrant s Amendment No. 2 to Registration Statement on Form S-1 (Registration Statement No. 333-56639) filed with the Securities and Exchange Commission on January 11, 1999.
10.5.2	Amendment to Lease #1, dated November 3, 1998, between Cummings Properties Management, Inc. and MicroFinancial Incorporated. Incorporated by reference to Exhibit 10.26 in the Registrant s Amendment No. 2 to Registration Statement on Form S-1 (Registration Statement No. 333-56639) filed with the Securities and Exchange Commission on January 11, 1999.
10.5.3	Lease Extension for the facility at 10-M Commerce Way, Woburn, MA dated September 16, 2003 among MicroFinancial Incorporated and Cummings Properties, LLC. Incorporated by reference to Exhibit 10.1 in the Registrant s Quarterly Report on Form 10-Q filed with the Securities and Exchange

	Commission on November 14, 2003.
10.5.4	Lease Extension #2 for the facility at 10-M Commerce Way, Woburn, MA dated July 15, 2005 among MicroFinancial Incorporated and Cummings Properties, LLC. Incorporated by reference to Exhibit 10.1 in the Registrant s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 12, 2005.
10.6.1*	1998 Equity Incentive Plan. Incorporated by reference to Exhibit 10.12 in the Registrant s Amendment No. 2 to Registration Statement on Form S-1 (Registration Statement No. 333-56639) filed with the Securities and Exchange Commission on January 11, 1999.
10.6.2*	Forms of Restricted Stock Agreement grant under 1998 Equity Incentive Plan. Incorporated by reference to Exhibit 10.27 in the Registrant s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2004.

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Exhibit Number	Description
10.6.3*	Form of incentive stock option agreement under 1998 Equity Incentive Plan. Incorporated by reference to Exhibit 10.6.3 in the Registrant s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 28, 2007.
10.6.4*	Form of non-qualified stock option agreement under 1998 Equity Incentive Plan. Incorporated by reference to Exhibit 10.6.4 in the Registrant s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 28, 2007.
10.6.5*	MicroFinancial Incorporated 2008 Equity Incentive Plan. Incorporated by reference to Exhibit 10.1 in the Registrant s Form 8-K filed with the Securities and Exchange Commission on May 16, 2008.
10.7*	Second Amended and Restated Employment Agreement between the Company and Peter R. Bleyleben dated July 15, 2005. Incorporated by reference to Exhibit 10.2 in the Registrant s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 12, 2005.
10.8.1*	Amended and Restated Employment Agreement between the Company and Richard F. Latour dated March 15, 2004. Incorporated by reference to Exhibit 10.8 in the Registrant s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 28, 2007.
10.8.2*	Amendment to Employment Agreement between the Company and Richard F. Latour dated December 24, 2008.
10.9.1*	Employment Agreement between the Company and James R. Jackson, Jr. dated May 4, 2005. Incorporated by reference to Exhibit 10.3 in the Registrant s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 12, 2005.
10.9.2*	Amendment to Employment Agreement between the Company and James R. Jackson dated December 24, 2008.
10.10.1*	Employment Agreement between the Company and Stephen Constantino dated May 4, 2005. Incorporated by reference to Exhibit 10.4 in the Registrant s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 12, 2005.
10.10.2*	Amendment to Employment Agreement between the Company and Stephen Constantino dated December 24, 2008.
10.11.1*	Employment Agreement between the Company and Steven LaCreta dated May 4, 2005. Incorporated by reference to Exhibit 10.5 in the Registrant s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 12, 2005.
10.11.2*	Amendment to Employment Agreement between the Company and Steven LaCreta dated December 24, 2008.
10.12	Registration Rights Agreement dated June 10, 2004 by and among MicroFinancial Incorporated, Acorn Capital Group, LLC and Ampac Capital Solutions, LLC. Incorporated by reference to Exhibit 10.12 of the Registrant s Form 8-K filed on June 15, 2004.
10.13	Registration Rights Agreement dated as of September 29, 2004, by and between MicroFinancial Incorporated and The CIT Group/Commercial Services, Inc., as Holder. Incorporated by reference to Exhibit 10.10 of the Registrant s Form 8-K filed on October 4, 2004.
10.14.1	Credit Agreement dated August 2, 2007. Incorporated by reference to Exhibit 10.1 of the Registrant s Form 8-K filed on August 8, 2007.
10.14.2	Unlimited Guaranty of Registrant dated August 2, 2007. Incorporated by reference to Exhibit 10.2 of the Registrant s Form 8-K filed on August 8, 2007.
10.14.3	Unlimited Guaranty of Leasecomm dated August 2, 2007. Incorporated by reference to Exhibit 10.3 of the Registrant s Form 8-K filed on August 8, 2007.
10.14.4	Security Agreement between Borrower and Agent dated August 2, 2007. Incorporated by reference to Exhibit 10.4 of the Registrant s Form 8-K filed on August 8, 2007.

10.14.5	Security Agreement between Registrant and Agent dated August 2, 2007. Incorporated by reference to Exhibit 10.5 of the Registrant s Form 8-K filed on August 8, 2007.
10.14.6	Security Agreement between Leasecomm and Agent dated August 2, 2007. Incorporated by reference to Exhibit 10.6 of the Registrant s Form 8-K filed on August 8, 2007.

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Exhibit Number	Description
10.14.7	Trademark Security Agreement and License dated August 2, 2007 by Borrower. Incorporated by reference to Exhibit 10.7 of the Registrant s Form 8-K filed on August 8, 2007.
10.14.8	Trademark Security Agreement and License dated August 2, 2007 by Registrant. Incorporated by reference to Exhibit 10.8 of the Registrant s Form 8-K filed on August 8, 2007.
10.14.9	Trademark Security Agreement and License dated August 2, 2007 by Leasecomm. Incorporated by reference to Exhibit 10.9 of the Registrant s Form 8-K filed on August 8, 2007.
10.14.10	Pledge Agreement of Registrant dated August 2, 2007. Incorporated by reference to Exhibit 10.10 of the Registrant s Form 8-K filed on August 8, 2007.
10.14.11	Amended and Restated Credit Agreement dated July 9, 2008. Incorporated by reference to Exhibit 10.10 of the Registrant s Form 8-K filed on July 15, 2008.
10.14.12	Agreement and Amendment No. 1 to Amended and Restated Credit Agreement dated February 10, 2009. Incorporated by reference to Exhibit 10.1 of the Registrant s Form 8-K filed on February 17, 2009).
10.14.13	Additional Lender Supplement dated February 10, 2009 (incorporated by reference to Exhibit 10.2 of the Registrant s Form 8-K filed on February 17, 2009.
10.14.14	Commitment Increase Supplement dated February 10, 2009. Incorporated by reference to Exhibit 10.3 of the Registrant s Form 8-K filed on February 17, 2009.
10.14.15	Sovereign Note dated July 9, 2008.
10.14.16	TD Banknorth Note dated July 9, 2008.
10.14.17	Commerce Bank & Trust Company Note dated February 10, 2009.
10.14.18	Danversbank Note dated February 10, 2009.
10.14.19	Wells Fargo Bank Note dated February 10, 2009.
10.15*	Compensatory Arrangements for Non-Employee Directors.
21.1	Subsidiaries of Registrant.
23.1	Consent of Vitale, Caturano & Company, P.C.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Filed herewith.

* Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 14(c) of this Report.

(b) See (a) (3) above.

(c) None.

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SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MicroFinancial Incorporated

By: /s/ Richard F. Latour
President and Chief Executive Officer

By: /s/ James R. Jackson Jr.
Vice President and Chief Financial Officer

Date: March 31, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Peter R. Bleyleben	Chairman of the Board of Directors	March 31, 2009
Peter R. Bleyleben		
/s/ Richard F. Latour	President, Chief Executive Officer, Treasurer, Clerk, Secretary and Director	March 31, 2009
Richard F. Latour		
/s/ James R. Jackson Jr.	Vice President and Chief Financial Officer	March 31, 2009
James R. Jackson Jr.		
/s/ Brian E. Boyle	Director	March 31, 2009
Brian E. Boyle		
/s/ John W. Everets	Director	March 31, 2009
John W. Everets		
/s/ Torrence C. Harder	Director	March 31, 2009
Torrence C. Harder		
/s/ Fritz Von Mering	Director	March 31, 2009

Fritz Von Mering		
/s/ Alan J. Zakon	Director	March 31, 2009
Alan J. Zakon		

MICROFINANCIAL INCORPORATED

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
MicroFinancial Incorporated:

We have audited the accompanying consolidated balance sheets of MicroFinancial Incorporated and its subsidiaries (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders equity and cash flows for the years ended December 31, 2008, 2007 and 2006. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company was not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also in