

MICROFINANCIAL INC
Form DEF 14A
April 11, 2013
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SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

(AMENDMENT NO.)

FILED BY THE REGISTRANT

FILED BY A PARTY OTHER THAN THE REGISTRANT

Check the appropriate box:

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

MICROFINANCIAL INCORPORATED

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement)

PAYMENT OF FILING FEE (CHECK THE APPROPRIATE BOX):

- No fee required.
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1) Title of each class of securities to which transaction applies:

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4) Proposed maximum aggregate value of transaction:

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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16 New England Executive Park, Suite 200

Burlington, Massachusetts 01803

April 11, 2013

Dear Stockholder:

I am pleased to invite you to the 2013 Special Meeting of Stockholders in Lieu of Annual Meeting of MicroFinancial Incorporated, which will be held on Thursday, May 9, 2013, at 10:00 a.m., at the offices of Edwards Wildman Palmer LLP, 111 Huntington Avenue, Boston, Massachusetts.

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

Matters scheduled for consideration at the Special Meeting are the election of two directors for three-year terms, a non-binding advisory vote on the compensation of our named executive officers, a non-binding vote relating to the frequency of conducting future advisory votes on executive compensation, and the ratification of the selection of independent auditors for 2013.

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

Very truly yours,

Fritz von Mering

Non-Executive Chairman

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MicroFinancial Incorporated

16 New England Executive Park, Suite 200

Burlington, Massachusetts 01803

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

IN LIEU OF ANNUAL MEETING

To Be Held May 9, 2013

The Special Meeting of Stockholders in Lieu of Annual Meeting of MicroFinancial Incorporated, a Massachusetts corporation (MicroFinancial), will be held Thursday, May 9, 2013, at 10:00 a.m., at the offices of Edwards Wildman Palmer LLP, 111 Huntington Avenue, Boston, Massachusetts for the following purposes:

1. To elect the two directors named in MicroFinancial s proxy statement for three-year terms.
2. To conduct an advisory vote on the compensation of MicroFinancial s named executive officers.
3. To conduct an advisory vote on the frequency of future advisory votes on executive compensation.
4. To ratify the selection of McGladrey LLP as independent auditors for MicroFinancial for 2013.
5. To transact such other business as may properly come before the Special Meeting.

The record date for determining stockholders entitled to notice of, and to vote at, the Special Meeting is the close of business on April 2, 2013. MicroFinancial s transfer books will not be closed.

By Order of the Board of Directors,

RICHARD F. LATOUR

Secretary

Burlington, Massachusetts

April 11, 2013

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

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Notice of Internet Availability of Proxy Materials:

The Notice of Meeting, proxy statement and annual report to stockholders

are available at www.microfinancial.com/proxyinfo/

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MicroFinancial Incorporated

16 New England Executive Park, Suite 200

Burlington, Massachusetts 01803

Telephone 781-994-4800

2013 SPECIAL MEETING OF STOCKHOLDERS

IN LIEU OF ANNUAL MEETING

PROXY STATEMENT

GENERAL

The enclosed proxy is solicited by the Board of Directors (MicroFinancial Board) of MicroFinancial Incorporated (MicroFinancial or the Corporation) in connection with the Special Meeting of Stockholders in Lieu of Annual Meeting (the Special Meeting) to be held on May 9, 2013. This proxy statement and the enclosed proxy are first being sent to stockholders on or about April 11, 2013. The proxy will be voted at the Special Meeting in accordance with the instructions indicated on the proxy by the stockholder. If no instructions are indicated, all shares represented by valid proxies received pursuant to this solicitation (and not revoked before they are voted) will be voted:

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

FOR the approval, on an advisory and non-binding basis, of the compensation of the Corporation s named executive officers;

FOR every one year for the frequency of future advisory votes on executive compensation;

FOR the ratification of the selection of McGladrey LLP as our independent registered public accounting firm for fiscal year 2013; and

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

The record date for determining stockholders entitled to vote at the Special Meeting is the close of business on April 2, 2013. On this date, there were outstanding and entitled to vote 14,501,080 shares of Common Stock, par value \$0.01 per share, of the Corporation (the Common Stock), each of which is entitled to one vote on each matter to be voted on at the Special Meeting. The presence (in person or by proxy) of a majority of the aggregate number of shares of Common Stock outstanding and entitled to vote on the record date is necessary to constitute a quorum at the Special Meeting. Abstentions, votes withheld and broker non-votes will be counted as present at the Special Meeting for purposes of determining whether there is a quorum. A broker non-vote occurs when a bank, broker or other nominee, holding shares for a beneficial owner, submits a proxy but does not vote on a particular matter because it has not received voting instructions on the matter from the beneficial owner and is barred by stock exchange rules from exercising discretionary authority to vote on the matter.

VOTING PROCEDURES

A plurality of votes of the shares of Common Stock represented at the Special Meeting is required to elect directors. In voting for the election of directors, stockholders may cast their votes in favor of a nominee or may withhold authority to vote, but votes against may not be specified. The affirmative vote of a majority of the votes cast at the Special Meeting is required to approve the non-binding proposal to approve the compensation of the Corporation s named executive officers and to ratify the selection of auditors. The frequency with which future say on pay

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proposals are included in future proxy statements that receives a plurality of votes cast by the stockholders entitled to vote on the proposal at the Special Meeting will be considered the selection of the stockholders. If a broker's authority to vote on a particular matter is limited, thus resulting in a broker non-vote, such broker non-vote will not be counted in determining the number of votes cast at the Special Meeting, and will have no effect on any of the proposals scheduled to be considered at the Special Meeting. Abstentions are likewise not considered votes cast and so will have no effect on such proposals.

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A stockholder of record may revoke a proxy by delivering written notice of revocation to Richard F. Latour, Secretary of MicroFinancial, at the address set forth above, by filing a duly executed proxy bearing a later date, or by attending the Special Meeting in person, notifying the Secretary, and voting by ballot at the Special Meeting. Any stockholder of record attending the Special Meeting may vote in person whether or not a proxy has been previously given, but the mere presence (without notifying the Secretary) of a stockholder at the Special Meeting will not constitute revocation of a previously given proxy. Stockholders who hold their shares in street name (i.e., through brokers or other nominees) will need to follow the instructions on their broker's or other nominee's voting instruction form to revoke any prior voting instruction. In addition, stockholders whose shares of Common Stock are not registered in their own name will need additional documentation from the record holder of the shares to vote in person at the Special Meeting.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as of March 15, 2013 with respect to the beneficial ownership of Common Stock of each person known by the Corporation to be the beneficial owner of more than 5% of the 14,501,080 shares of Common Stock outstanding as of such date, each director and executive officer of the Corporation and all directors and executive officers of the Corporation as a group.

Name and Address of Beneficial Owner(1)	Number of Shares Beneficially Owned(2)	Percentage of Outstanding Common Stock
Directors and Executive Officers		
Torrence C. Harder(3)	1,636,287	11.3%
Peter R. Bleyleben.	1,458,466	10.1%
Brian E. Boyle(4)	1,489,811	10.3%
Richard F. Latour(5)	664,404	4.5%
Alan J. Zakon	234,204	1.6%
Fritz von Mering	138,140	1.0%
James R. Jackson, Jr.(6)	197,937	1.4%
Steven J. LaCreta(7)	71,057	*
Stephen Constantino(8)	77,283	*
Vartan Hagopian(9)	0	*
All directors and executive officers as a group (10 persons)	5,967,589	40.1%
Others		
Austin W. Marxe(10)	1,542,372	10.6%
David M. Greenhouse (10)		
c/o AWM Investment Company, Inc. 527 Madison Avenue, Suite 2600 New York, New York 10022		
Dimensional Fund Advisors LP(11) Palisades West, Building One 6300 Bee Cave Road Austin, Texas 78746	726,717	5.0%

* Less than 1%

(1) Unless otherwise indicated, the business address of each officer and director of the Corporation is 16 New England Executive Park, Suite 200, Burlington, Massachusetts 01803.

(2) Unless otherwise indicated in the footnotes, each of the stockholders named in this table has sole voting and investment power with respect to the shares of Common Stock shown as beneficially owned by such stockholder, except to the extent that authority is shared by spouses under applicable law.

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- (3) Includes 123,683 shares of Common Stock held in trust for Mr. Harder's daughter, Lauren E. Harder, over which Mr. Harder retains sole voting and investment power as the sole trustee and for which Mr. Harder disclaims beneficial ownership; 123,683 shares of Common Stock held in trust for Mr. Harder's daughter,

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Ashley J. Harder, over which Mr. Harder maintains voting and investment power as the sole trustee and for which Mr. Harder disclaims beneficial ownership; 276,045 shares of Common Stock owned by Entrepreneurial Ventures, Inc. over which Mr. Harder retains shared voting and investment power through his ownership in, and positions as President and Director of, Entrepreneurial Ventures, Inc.; and 400,000 shares owned by a limited liability company of which Mr. Harder is managing member, and the other members of which are trusts for the benefit of family members of Mr. Harder.

- (4) Includes 1,000 shares held directly by a family member, as to which Mr. Boyle disclaims beneficial ownership.
- (5) Includes 163,531 shares of Common Stock issuable upon the exercise of options granted to Mr. Latour, which vest on or before May 2, 2013. Excludes 35,405 shares of Common Stock underlying unvested restricted stock units with time-based vesting provisions and 18,785 shares of Common Stock underlying unvested restricted stock units with performance-based vesting provisions.
- (6) Includes 94,980 shares of Common Stock issuable upon the exercise of options granted to Mr. Jackson, which vest on or before May 2, 2013. Excludes 24,337 shares of Common Stock underlying unvested restricted stock units with time-based vesting provisions and 6,469 shares of Common Stock underlying unvested restricted stock units with performance-based vesting provisions.
- (7) Includes 56,805 shares of Common Stock issuable upon the exercise of options granted to Mr. LaCreta, which vest on or before May 2, 2013. Excludes 15,924 shares of Common Stock underlying unvested restricted stock units with time-based vesting provisions and 2,122 shares of Common Stock underlying unvested restricted stock units with performance-based vesting provisions.
- (8) Includes 53,032 shares of Common Stock issuable upon the exercise of options granted to Mr. Constantino, which vest on or before May 2, 2013. Excludes 15,511 shares of Common Stock underlying unvested restricted stock units with time-based vesting provisions and 2,075 shares of Common Stock underlying unvested restricted stock units with performance-based vesting provisions.
- (9) Excludes 5,298 shares of Common Stock underlying unvested restricted stock units with time-based vesting provisions and 1,325 shares of Common Stock underlying unvested restricted stock units with performance-based vesting provisions.
- (10) The number of shares and the following information is based upon information set forth in the amended Schedule 13G filed with the SEC on February 13, 2013 by Austin W. Marx (Marx) and David M. Greenhouse (Greenhouse), who are the controlling principals of AWM Investment Company, Inc. (AWM), the general partner of and investment adviser to Special Situations Cayman Fund, L.P. (Cayman). AWM also serves as the general partner of MGP Advisers Limited Partnership (MGP) and the general partner of Special Situations Fund III QP, LP (SSFQP). AWM serves as the investment adviser to SSFQP. Of the 1,542,372 shares reported in the Schedule 13G as being beneficially owned by Marx and Greenhouse, 290,191 shares are owned by Cayman and 1,252,181 shares are owned by SSFQP. Marx and Greenhouse have shared power to vote and the shared power to dispose of all 1,542,372 shares.
- (11) The number of shares and the following information is based upon information set forth in the Schedule 13G filed with the SEC on February 11, 2013 by Dimensional Fund Advisors LP, an investment adviser registered under the Investment Advisors Act of 1940 (Dimensional Advisors). Dimensional Advisors furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other commingled group trusts and separate accounts (such investment companies, trusts and accounts, collectively referred to as the Funds). In certain cases, subsidiaries of Dimensional Fund Advisors LP may act as an adviser or sub-adviser to certain Funds. In its role as investment adviser, sub-adviser and/or manager, neither Dimensional Advisors or its subsidiaries (collectively, Dimensional) possess voting and/or investment power over the securities of the Corporation that are owned by the Funds. However, all shares of common stock referenced in the table above are owned by the Funds. Dimensional disclaims beneficial ownership of such securities.

Table of Contents**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 (as amended, the Exchange Act) requires the Corporation's directors and officers and persons who beneficially own more than ten percent (10%) of the Common Shares (each, a Reporting Person) to file reports of ownership and changes of ownership with the Securities and Exchange Commission. Copies of all filed reports are required to be furnished to the Corporation pursuant to Section 16(a) of the Exchange Act. Brian Boyle, Terrence Harder and Alan Zakon, each of whom is a member of the Corporation's Board of Directors, exercised expiring stock options for 50,000 shares each on November 16, 2012, for which Form 4's were filed on January 7, 2013. Other than as described in the previous sentence, and based solely upon a review of Forms 3 and 4 and amendments thereto furnished to the Corporation pursuant to Rule 16a-3(e) of the Exchange Act during fiscal year ended December 31, 2012 and on written representations from Reporting Persons, the Corporation believes that each Reporting Person complied with all applicable filing requirements during its fiscal year ended December 31, 2012.

GOVERNANCE OF THE CORPORATION**Members of the Board of Directors and their Committee Assignments**

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

DIRECTOR	AUDIT COMMITTEE	NOMINATING AND CORPORATE GOVERNANCE COMMITTEE	COMPENSATION AND BENEFITS COMMITTEE	CREDIT POLICY COMMITTEE	STRATEGIC PLANNING COMMITTEE
Peter R. Bleyleben				*	*
Brian E. Boyle	*	*	**	*	*
Torrence C. Harder	*			**	*
Richard Latour					
Fritz von Mering	**	*	*		**
Alan Zakon		**	*		*

* Member

** Chairperson

Description of the Roles of the Committees

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

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

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

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

The Audit Committee met five times during fiscal 2012.

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

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

The Nominating and Corporate Governance Committee met four times during fiscal 2012.

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

The committee has the sole authority to retain and terminate any legal counsel or compensation or other consultant to be used to assist in the evaluation of director or executive compensation and also has the sole authority to approve the consultant's fees or other retention terms. The compensation committee periodically engages Mercer, Inc. (Mercer) to review the annual compensation of executive officers and make recommendations with respect to setting the appropriate targeted compensation levels. The committee engages Mercer directly and has sole authority to make decisions relating to that engagement. Mercer is not otherwise engaged to perform any other activities or services for MicroFinancial or its management. The committee is copied on all final work product developed, and receives copies of the final invoices from Mercer. Based on these factors, the committee is satisfied that Mercer is independent of management in evaluating and making recommendations with respect to executive compensation. See Compensation Overview Compensation Philosophy and Objectives for more information on Mercer's role.

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

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

The Compensation and Benefits Committee met five times during fiscal 2012.

Credit Policy Committee. The Credit Policy Committee is appointed by the Board to discharge the Board's responsibilities relating to oversight of the Corporation's credit policies. The Committee has responsibility for approving and evaluating the Corporation's policies and programs relating to customer credit

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scoring parameters, including industry segments, product lines, and overall strategic direction. The Committee will evaluate management's recommendations consistent with those parameters, as established from time to time, and further as consistent with the Corporation's legal and regulatory requirements.

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

The Board's Leadership Structure

Since 2002, the Corporation has separated the roles of Chief Executive Officer and Chairman in recognition of the differences between the two functions. The Chief Executive Officer sets, with the guidance of the Board of Directors, the strategic direction of the Corporation and is responsible for the day to day management and leadership of the Corporation. The non-executive Chairman is charged with coordinating the activities of the various Board committees, acting as a liaison between the Board and management, assisting the Chief Executive Officer in setting the agenda for meetings of the Board and presiding over meetings of the full Board and stockholders as well as over executive sessions of the Board. The Board determined that this separation of duties provides an appropriate structure for the Corporation since it separates the day to day management of the Corporation from its oversight.

At the Corporation's 2012 stockholder meeting, Fritz von Mering became the Corporation's non-executive Chairman, succeeding Peter Bleyleben. The Board of Directors also adopted a policy to rotate the chair position on a periodic basis among the non-executive directors in order to bring different perspectives and backgrounds to the Board's leadership from time to time. In reviewing the policy during the first quarter of fiscal 2013, the Board determined to retain its current leadership structure for the time being, with Mr. von Mering remaining as non-executive Chairman, and to evaluate the application of the rotation policy the following year.

The Board's Role in Risk Oversight

The Board's role in the Corporation's risk oversight process includes receiving regular reports from members of senior management on specific areas of material risk to the Corporation, including operational, financial, strategic, legal, and reputational risks. Either the full Board, or in the case of certain types of risk, an appropriate committee of the Board, receives reports from each of the executive officers of the Corporation in order to enable it to understand the Corporation's risk identification, management and mitigation strategies. In particular, the Credit Committee of the Board oversees risks to the Corporation relating to the credit quality of its lease originations. The Audit Committee generally oversees financial risks relating to the Corporation including risks relating to the availability of credit under its credit facilities and interest rate risk relating to the use of those facilities. Where risk oversight is handled primarily by a committee of the Board, the chairman of the applicable committee makes regular reports to the full Board for discussion. It is the full Board's responsibility to evaluate the totality of the risks facing the Corporation in combination.

Selection of Nominees for the Board of Directors

The Nominating and Corporate Governance Committee considers candidates for Board membership suggested by its members and other Board members, as well as management and stockholders. A stockholder who wishes to recommend a prospective nominee for the Board should notify the Corporation's Corporate Secretary or any member of the Nominating and Corporate Governance Committee in writing with whatever

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supporting material the stockholder considers appropriate. The Nominating and Corporate Governance Committee will also consider whether to nominate any person nominated by a stockholder pursuant to the provisions of the Corporation's bylaws relating to stockholder nominations.

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

the ability of the prospective nominee to represent the long-term interests of the stockholders of the Corporation;

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

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

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

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

The Nominating and Corporate Governance Committee does not have a formal policy on diversity with respect to its Board composition. In considering new nominees and considering whether to renominate existing members of the Board, the Committee examines each person's specific skills and attributes in the context of the skill set represented on the Board as a whole, and seeks to achieve a Board with strength in its collective knowledge and a diversity of perspectives, skills and business and professional experience in a broad sense.

Determination of Director Independence

The Board and the Nominating and Corporate Governance Committee have adopted *Corporate Governance Guidelines* for the Corporation. The *Guidelines* may be found on the Corporation's web site at www.microfinacial.com.

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

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As a result of this review, the Board has affirmatively determined that all of the directors are independent of the Corporation and its management under Nasdaq Stock Market rules and the standards set forth in the *Corporate Governance Guidelines*, with the exception of Richard Latour who is not considered independent based upon his employment by the Corporation. In making this decision, the Board considered all relationships between the Corporation and the directors. The Board also considered the former employment relationship of Dr. Boyle to the Corporation which ended in 1987, and the former employment relationship of Dr. Bleyleben to the Corporation, which ended in 2008, as well as the stock ownership positions of each director. The Board determined each such relationship, and the aggregate of such relationships, to be immaterial to the applicable director's ability to exercise independent judgment.

Meetings of the Board of Directors during Fiscal 2012

In 2012, all MicroFinancial Board members attended over 75% of the aggregate of the meetings of the MicroFinancial Board and its committees on which they served. The Corporation does not have a formal policy relating to attendance of Board members at its annual meeting of stockholders, but it encourages all members of its Board to attend. Four of the six Board members then serving attended the 2012 Special Meeting of Stockholders in Lieu of Annual Meeting.

The Board of Directors met fourteen times during fiscal 2012.

Compensation of Directors

The annual compensation package for non-employee directors during 2012 was comprised of:

an annual retainer of \$21,000, to be paid at the director's election either entirely in shares of stock or 40% in cash and 60% in shares of stock, in each case with full vesting upon the date of issuance;

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

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

annual fees for the chairs of the Corporation's Audit Committee (\$10,500), Compensation and Benefits Committee (\$5,250) and Nominating and Corporate Governance Committee (\$5,250), to be paid either entirely in shares of stock or 40% in cash and 60% in shares of stock, in each case with full vesting upon the date of issuance;

a fee for the non-executive Chairman of the Board of \$10,500 per year, to be paid either entirely in shares of stock or 40% in cash and 60% in shares of stock, in each case with full vesting upon the date of issuance;

a stock grant made annually to each non-employee director valued at \$44,100 on the date of grant; and

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

Non-meeting fee compensation, including the retainer, chair fees and annual equity awards, was increased by 5% over 2011 levels following a January 2012 review of director compensation by the Compensation Committee and consultation with its compensation consultant. For purposes of determining the number of shares to be issued under the annual stock grant valued at \$44,100, the Corporation uses the greater of the market value of a share of common stock on the grant date or the book value of a share of common stock on the last day of the fiscal year. For 2012, these awards were made January 29, 2013, at which time the market value of a share of common stock was greater than the per share book value, resulting in a grant of 5,841 shares of common stock to each director based upon the \$7.55 closing share price on such date.

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Committee chairs may decide in their discretion that certain meetings are not substantive enough to merit the committee fees described above.

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The following table sets forth the compensation paid to each director of the Corporation for 2012, with the exception of Mr. Latour (whose compensation is presented in the executive compensation tables elsewhere in this proxy statement):

Name	Fees Earned or Paid in Cash \$(1)	Stock Awards \$(2)
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