

LITCHFIELD FINANCIAL CORP /MA

FORM S-3

(Securities Registration Statement (simplified form))

Filed 05/21/98

Address	430 MAIN STREET WILLIAMSTOWN, MA 01267
Telephone	4134581000
CIK	0000882515
SIC Code	6162 - Mortgage Bankers and Loan Correspondents
Fiscal Year	12/31

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Address	430 MAIN STREET WILLIAMSTOWN, Massachusetts 01267
Telephone	413-458-1000
CIK	0000882515
Fiscal Year	12/31

REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-3

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

LITCHFIELD FINANCIAL CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

MASSACHUSETTS
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

04-3023928
(IRS EMPLOYER IDENTIFICATION NUMBER)

430 MAIN STREET, WILLIAMSTOWN, MA 01267, (413)458-1000
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER,
INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

RICHARD A. STRATTON

PRESIDENT AND CHIEF EXECUTIVE OFFICER
LITCHFIELD FINANCIAL CORPORATION
430 MAIN STREET, WILLIAMSTOWN, MASSACHUSETTS 01267
(413)458-1000

COPIES TO:

JAMES WESTRA, ESQ.
HUTCHINS, WHEELER & DITTMAR
A PROFESSIONAL CORPORATION
101 FEDERAL STREET
BOSTON, MASSACHUSETTS 02110
(617)951-6600

BOB F. THOMPSON, ESQ.
BASS, BERRY & SIMS PLC
2700 FIRST AMERICAN CENTER
NASHVILLE, TENNESSEE 37238
(615)742-6200

(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER,
INCLUDING AREA CODE, OF AGENT FOR SERVICE) APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE
TO THE PUBLIC: As soon as

practicable after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. []

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest investment plans, check the following box. []

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. []

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED(1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE(2)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(2)	AMOUNT OF REGISTRATION FEE
Common Stock, \$.01 par value.....	1,322,500	\$23.00	\$30,417,500	\$8,974

(1) Includes 172,500 shares subject to the Underwriters' over-allotment option.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933 based on the average of the high and low sales prices of the Common Stock reported in the consolidated transaction reporting system on May 19, 1998.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SUBJECT TO COMPLETION, DATED MAY , 1998

PROSPECTUS

1,150,000 SHARES

[LITCHFIELD LOGO]

COMMON STOCK

Of the 1,150,000 shares of Common Stock offered hereby, 1,000,000 shares are being sold by Litchfield Financial Corporation (the "Company") and 150,000 shares are being sold by certain selling stockholders (the "Selling Stockholders"). See "Principal and Selling Stockholders." The Company will not receive any of the proceeds from the sale of shares by the Selling Stockholders. The Common Stock is quoted on The Nasdaq National Market under the symbol "LTCH". On May , 1998, the last reported sale price for the Common Stock, as reported on the Nasdaq National Market, was \$ per share. See "Market Price of and Dividends on Common Stock."

THE COMMON STOCK OFFERED HEREBY INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" COMMENCING ON PAGE 9. THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE

ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNT (1)	PROCEEDS TO COMPANY (2) (3)	PROCEEDS TO SELLING STOCKHOLDERS
Per Share.....	\$	\$	\$	\$
Total.....	\$	\$	\$	\$

(1) The Company and the Selling Stockholders have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriting."

(2) Before deducting expenses payable by the Company estimated to be \$265,000.

(3) The Company has granted the Underwriters a 30-day option to purchase up to an aggregate of 172,500 additional shares of Common Stock on the same terms as set forth above, solely to cover over-allotments, if any. If all these shares are purchased by the Underwriters, the total Price to Public will be \$, the total Underwriting Discount will be \$, the total Proceeds to the Company will be \$ and the total Proceeds to the Selling Stockholders will be \$. See "Underwriting."

The shares of Common Stock are being offered by the Underwriters, subject to prior sale, when, as and if delivered to and accepted by the Underwriters and subject to their rights to reject orders in whole or in part. It is expected that delivery of the certificates for the shares of Common Stock will be made in Boston, Massachusetts on or about , 1998.

**TUCKER ANTHONY
INCORPORATED**

**MCDONALD & COMPANY
SECURITIES, INC.**

J.C. BRADFORD & CO.

THE DATE OF THIS PROSPECTUS IS MAY , 1998.

Map showing location of collateral securing loans in the Serviced Portfolio

This map shows the percentage distribution by state of the principal amount of the Serviced Portfolio as of March 31, 1998 based on the location of the collateral securing the loans. In addition to the locations shown on the map, approximately 1.0% of the principal amount of the Serviced Portfolio is secured by collateral located in the Caribbean Islands.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN, OR OTHERWISE AFFECT THE PRICE OF THE COMMON STOCK OFFERED HEREBY, INCLUDING OVER-ALLOTMENTS, STABILIZING TRANSACTIONS, SYNDICATE SHORT COVERING TRANSACTIONS AND PENALTY BIDS. SUCH TRANSACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

IN CONNECTION WITH THIS OFFERING, CERTAIN UNDERWRITERS MAY ENGAGE IN PASSIVE MARKET MAKING TRANSACTIONS IN THE COMMON STOCK OFFERED HEREBY ON THE NASDAQ NATIONAL MARKET IN ACCORDANCE WITH RULE 103 OF REGULATION M. SEE "UNDERWRITING."

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information and consolidated financial statements, including the notes thereto, appearing elsewhere in this Prospectus or incorporated herein by reference. Unless otherwise indicated, the information set forth herein does not reflect the exercise of the Underwriters' over-allotment option and has been adjusted to reflect a 3-for-2 stock split in 1993 and a 5% stock dividend in each of 1994, 1995 and 1996.

THE COMPANY

Litchfield Financial Corporation (the "Company") is a specialty finance company that provides financing to creditworthy borrowers for assets not typically financed by banks. The Company provides such financing by purchasing consumer loans and by making loans to businesses secured by consumer receivables or other assets.

The Company purchases consumer loans (the "Purchased Loans") consisting primarily of loans to purchasers of rural and vacation properties ("Land Loans") and vacation ownership interests popularly known as timeshare interests ("VOI Loans"). The Company also provides financing to rural land dealers, timeshare resort developers and other finance companies secured by receivables ("Hypothecation Loans") and to dealers and developers for the acquisition and development of rural land and timeshare resorts ("A&D Loans"). In addition, the Company purchases other loans, such as consumer home equity loans and consumer construction loans, and provides financing to other businesses secured by receivables or other assets ("Other Loans").

Land Loans are typically secured by one to twenty acre rural parcels. Land Loans are secured by property located in 35 states, predominantly in the southern United States. VOI Loans typically finance the purchase of ownership interests in fully furnished vacation properties. VOI Loans are secured by property located in 17 states, predominantly in California, Florida and Pennsylvania. The Company requires most dealers or developers from whom it buys Purchased Loans to guarantee repayment or replacement of any loan in default. Ordinarily, the Company retains a percentage of the purchase price as a reserve until the Purchased Loan is repaid.

The Company extends Hypothecation Loans to land dealers, resort developers and other finance companies secured by receivables. Hypothecation Loans typically have advance rates of 75% to 90% of the current balance of the pledged receivables and variable interest rates based on the prime rate plus 2% to 4%.

The Company also makes A&D Loans to land dealers and resort developers for the acquisition and development of rural land and timeshare resorts in order to finance additional receivables generated by the A&D Loans. At the time the Company makes A&D Loans, it typically receives an exclusive right to purchase or finance the related consumer receivables generated by the sale of the subdivided land or timeshare interests. A&D Loans typically have loan to value ratios of 60% to 80% and variable interest rates based on the prime rate plus 2% to 4%.

The principal sources of the Company's revenues are (i) interest and fees on loans, (ii) gains on sales of loans and (iii) servicing and other fee income. Gains on sales of loans are based on the difference between the allocated cost basis of the assets sold and the proceeds received, which includes the fair value of any assets or liabilities that are newly created as a result of the transaction. Because a significant portion of the Company's revenue is comprised of gains realized upon sales of loans, the timing of such sales has a significant effect on the Company's results of operations. As of March 31, 1998, the Company had sold \$265.0 million of Land Loans, \$54.1 million of VOI Loans and \$47.6 million of Hypothecation Loans since its inception.

As of March 31, 1998, the Company serviced loans with a principal balance of \$338.5 million (the "Serviced Portfolio"), of which the Company owned \$154.3 million. As of March 31, 1998 the Serviced Portfolio was comprised of 52.5% Purchased Loans, 32.3% Hypothecation Loans, 12.8% A&D Loans and 2.4% Other Loans. The average principal balance of the Land Loans in the Serviced Portfolio was \$13,200 with a weighted average remaining maturity of 12.1 years and a weighted average interest rate of 12.0%. Approximately 82.5% of such loans had fixed rates of interest. The average principal balance of the VOI Loans in the Serviced Portfolio was \$3,500 with a weighted average remaining maturity of 3.8 years and a weighted average

interest rate of 14.6%. Approximately 96.3% of such loans had fixed rates of interest. The average principal balance of the Hypothecation Loans in the Serviced Portfolio was \$1,401,000 with a weighted average interest rate of 11.5% and an average advance rate of 84.0%. Approximately 88.5% of such loans had variable rates of interest. The average principal balance of the A&D Loans in the Serviced Portfolio was \$545,000 with a weighted average interest rate of 11.6% and an average loan to value ratio of 71%. Approximately 86.1% of such loans had variable rates of interest. As of March 31, 1998, loans 30 days or more past due which are not covered by dealer/developer reserves or guarantees and not included in other real estate owned were 1.20% of the Serviced Portfolio. For the three months ended March 31, 1998, annualized net charge-offs were .66% of the average Serviced Portfolio.

THE OFFERING

Common Stock offered by the Company.....	1,000,000 Shares
Common Stock offered by the Selling Stockholders.....	150,000 Shares
Common Stock to be outstanding after the Offering.....	6,707,751 Shares(1)
Use of proceeds.....	To repay certain amounts outstanding under the Company's lines of credit and for general corporate purposes. See "Use of Proceeds."
Nasdaq National Market symbol.....	LTCH

(1) Excludes 752,030 shares issuable upon exercise of outstanding stock options under the Company's 1990 Stock Option Plan at May 4, 1998, of which options for 553,138 shares were exercisable as of such date, and 12,864 shares issuable upon exercise of outstanding stock options under the Company's 1995 Stock Option Plan for Non-Employee Directors at May 4, 1998, of which options for 12,864 shares were exercisable as of such date. See "Principal and Selling Stockholders."

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEAR ENDED DECEMBER 31,					THREE MONTHS ENDED MARCH 31,	
	1993	1994	1995	1996	1997	1997	1998
STATEMENT OF INCOME DATA(1):							
Revenues:							
Interest and fees on loans....	\$ 4,330	\$ 5,669	\$ 11,392	\$ 14,789	\$ 19,374	\$ 4,546	\$ 5,233
Gain on sale of loans.....	4,550	4,847	5,161	7,331	8,564	1,504	2,227
Servicing and other fee income.....	501	459	908	1,576	1,753	357	493
Total revenues.....	9,381	10,975	17,461	23,696	29,691	6,407	7,953
Expenses:							
Interest expense.....	2,717	3,158	6,138	7,197	10,675	2,394	2,997
Salaries and employee benefits.....	1,350	1,776	2,798	2,824	3,399	813	1,133
Other operating expenses.....	1,017	1,164	2,120	3,147	3,480	903	953
Provision for loan losses.....	620	559	890	1,954	1,400	435	350
Total expenses.....	5,704	6,657	11,946	15,122	18,954	4,545	5,433
Income before income taxes and extraordinary item.....	3,677	4,318	5,515	8,574	10,737	1,862	2,520
Provision for income taxes.....	1,426	1,619	2,066	3,301	4,134	717	970
Income before extraordinary item.....	2,251	2,699	3,449	5,273	6,603	1,145	1,550
Extraordinary item(2).....	--	(126)	--	--	(220)	--	--
Net income.....	\$ 2,251	\$ 2,573	\$ 3,449	\$ 5,273	\$ 6,383	\$ 1,145	\$ 1,550
Basic per common share amounts:							
Income before extraordinary item.....	\$.55	\$.66	\$.80	\$.97	\$ 1.19	\$.21	\$.27
Extraordinary item.....	--	(.03)	--	--	(.04)	--	--
Net income per share...	\$.55	\$.63	\$.80	\$.97	\$ 1.15	\$.21	\$.27
Basic weighted average number of shares outstanding.....							
	4,065,688	4,116,684	4,315,469	5,441,636	5,572,465	5,446,679	5,659,756
Diluted per common share amounts:							
Income before extraordinary item.....	\$.53	\$.63	\$.76	\$.93	\$ 1.12	\$.20	\$.26
Extraordinary item.....	--	(.03)	--	--	(.04)	--	--
Net income per share...	\$.53	\$.60	\$.76	\$.93	\$ 1.08	\$.20	\$.26
Diluted weighted average number of shares outstanding.....							
	4,216,151	4,282,884	4,524,607	5,682,152	5,909,432	5,792,078	6,020,158
Cash dividends declared per common share.....	\$.02	\$.03	\$.04	\$.05	\$.06	\$ --	\$ --
OTHER STATEMENT OF INCOME DATA:							
Income before extraordinary item as a percentage of revenues...	24.0%	24.6%	19.8%	22.3%	22.3%	17.9%	19.5%
Return on average assets(3).....	5.0%	4.6%	3.7%	4.0%	3.8%	2.8%	3.1%
Return on average equity(3).....	17.0%	17.2%	16.6%	13.3%	14.1%	10.6%	11.8%

(1) Certain amounts in the 1993 through 1996 financial information have been restated to conform to the 1997 and 1998 presentation.

(2) Reflects loss on early extinguishment of a portion of the Notes issued by the Company in 1992 (the "1992 Notes"), net of applicable tax benefit of \$76,000, for 1994 and of the remainder of the 1992 Notes, net of applicable tax benefit of \$138,000, for 1997.

(3) The returns on average assets and average equity for the three month periods are calculated on an annualized basis. Calculations are based on income before extraordinary item. Historically, the Company's returns generally have been lower in the first quarter than for the respective fiscal year as a whole.

	DECEMBER 31,					MARCH 31,
	1993	1994	1995	1996	1997	1998
BALANCE SHEET DATA(4):						
Total assets.....	\$54,444	\$ 63,487	\$112,459	\$152,689	\$186,790	\$210,176
Loans held for sale(5).....	5,931	11,094	14,380	12,260	16,366	16,246
Other loans(5).....	10,306	15,790	33,613	79,996	86,307	116,816
Retained interests in loan sales(5).....	11,764	11,996	22,594	28,912	30,299	29,937
Secured debt.....	--	5,823	9,836	43,727	5,387	27,650
Unsecured debt.....	32,302	29,896	47,401	46,995	105,347	105,347
Stockholders' equity.....	14,722	16,610	37,396	42,448	52,071	53,643
OTHER FINANCIAL DATA:						
Loans purchased and originated(6).....	\$42,410	\$ 59,798	\$121,046	\$133,750	\$184,660	\$ 67,493
Loans sold(6).....	28,099	40,116	65,115	54,936	98,747	18,502
Loans participated(6).....	--	--	--	--	6,936	1,452
Serviced Portfolio(7).....	84,360	105,013	176,650	242,445	304,102	338,502
Loans serviced for others.....	59,720	72,731	111,117	129,619	179,790	184,157
Dealer/developer reserves.....	4,926	6,575	9,644	10,628	10,655	10,616
Allowance for loan losses(8).....	1,064	1,264	3,715	4,528	5,877	6,164
Allowance ratio(9).....	1.26%	1.20%	2.10%	1.87%	1.93%	1.82%
Delinquency ratio(10).....	.61%	.93%	1.73%	1.34%	1.20%	1.20%
Net charge-off ratio(6)(11).....	.69%	.38%	.67%	.94%	.74%	.66%
Non-performing asset ratio(12).....	1.48%	1.02%	1.35%	1.57%	1.03%	.84%

(4) In 1997 the Company adopted Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Consequently, certain amounts included in the 1993 through 1996 financial statements have been reclassified to conform with the 1997 and 1998 presentation: "Subordinated passthrough certificates held to maturity," "Excess servicing asset" and "Allowance for loans sold" have been reclassified as "Retained interests in loan sales." In addition, "Loans held for investment" have been reclassified as "Other loans."

(5) Amount indicated is net of allowance for loan losses.

(6) During the relevant period.

(7) The Serviced Portfolio consists of the principal amount of loans serviced by or on behalf of the Company, except loans participated without recourse to the Company.

(8) The allowance for loan losses includes the recourse obligation on retained interests in loan sales.

(9) The allowance ratio is the allowance for loan losses divided by the amount of the Serviced Portfolio.

(10) The delinquency ratio is the amount of delinquent loans divided by the amount of the Serviced Portfolio. Delinquent loans are those which are 30 days or more past due which are not covered by dealer/developer reserves or guarantees and not included in other real estate owned.

(11) The net charge-off ratio is determined by dividing the amount of net charge-offs for the period by the average Serviced Portfolio for the period. The March 31, 1998 amount is calculated on an annualized basis.

(12) The non-performing asset ratio is determined by dividing the sum of the amount of those loans which are 90 days or more past due and which are not covered by dealer/developer reserves or guarantees and other real estate owned by the amount of the Serviced Portfolio.

THE COMPANY

Litchfield Financial Corporation (the "Company") is a specialty finance company that provides financing to creditworthy borrowers for assets not typically financed by banks. The Company provides such financing by purchasing consumer loans and by making loans to businesses secured by consumer receivables or other assets.

The Company purchases consumer loans (the "Purchased Loans") consisting primarily of loans to purchasers of rural and vacation properties ("Land Loans") and vacation ownership interests popularly known as timeshare interests ("VOI Loans"). The Company also provides financing to rural land dealers, timeshare resort developers and other finance companies secured by receivables ("Hypothecation Loans") and to dealers and developers for the acquisition and development of rural land and timeshare resorts ("A&D Loans"). In addition, the Company purchases other loans, such as consumer home equity loans and consumer construction loans, and provides financing to other businesses secured by receivables or other assets ("Other Loans").

Land Loans are typically secured by one to twenty acre rural parcels. Land Loans are secured by property located in 35 states, predominantly in the southern United States. VOI Loans typically finance the purchase of ownership interests in fully furnished vacation properties. VOI Loans are secured by property located in 17 states, predominantly in California, Florida and Pennsylvania. The Company requires most dealers or developers from whom it buys loans to guarantee repayment or replacement of any loan in default. Ordinarily, the Company retains a percentage of the purchase price as a reserve until the loan is repaid.

The Company extends Hypothecation Loans to land dealers, resort developers and other finance companies secured by receivables. Hypothecation Loans typically have advance rates of 75% to 90% of the current balance of the pledged receivables and variable interest rates based on the prime rate plus 2% to 4%.

The Company also makes A&D Loans to land dealers and resort developers for the acquisition and development of rural land and timeshare resorts in order to finance additional receivables generated by the A&D Loans. At the time the Company makes A&D Loans, it typically receives an exclusive right to purchase or finance the related consumer receivables generated by the sale of the subdivided land or timeshare interests. A&D Loans typically have loan to value ratios of 60% to 80% and variable interest rates based on the prime rate plus 2% to 4%.

The principal sources of the Company's revenues are (i) interest and fees on loans, (ii) gains on sales of loans and (iii) servicing and other fee income. Gains on sales of loans are based on the difference between the allocated cost basis of the assets sold and the proceeds received, which includes the fair value of any assets or liabilities that are newly created as a result of the transaction. Because a significant portion of the Company's revenue is comprised of gains realized upon sales of loans, the timing of such sales has a significant effect on the Company's results of operations. As of March 31, 1998, the Company had sold \$265.0 million of Land Loans, \$54.1 million of VOI Loans and \$47.6 million of Hypothecation Loans since its inception.

As of March 31, 1998, the Company serviced loans with a principal balance of \$338.5 million (the "Serviced Portfolio"), of which the Company owned \$154.3 million. As of March 31, 1998 the Serviced Portfolio was comprised of 52.5% Purchased Loans, 32.3% Hypothecation Loans, 12.8% A&D Loans and 2.4% Other Loans. The average principal balance of the Land Loans in the Serviced Portfolio was \$13,200 with a weighted average remaining maturity of 12.1 years and a weighted average interest rate of 12.0%. Approximately 82.5% of such loans had fixed rates of interest. The average principal balance of the VOI Loans in the Serviced Portfolio was \$3,500 with a weighted average remaining maturity of 3.8 years and a weighted average interest rate of 14.6%. Approximately 96.3% of such loans had fixed rates of interest. The average principal balance of the Hypothecation Loans in the Serviced Portfolio was \$1,401,000 with a weighted average interest rate of 11.5% and an average advance rate of 84.0%. Approximately 88.5% of such loans had variable rates of interest. The average principal balance of the A&D Loans in the Serviced Portfolio was \$545,000 with a weighted average interest rate of 11.6% and an average loan to value ratio of 71%. Approximately 86.1% of such loans had variable rates of interest. As of March 31, 1998, loans 30 days or more past due which are not covered by dealer/developer reserves or guarantees and not included in other real estate owned were 1.20% of the Serviced Portfolio. For the three months ended March 31, 1998, annualized net charge-offs were .66% of the average Serviced Portfolio.

The Company was founded in November 1988. The Company's strategy has been to build its Serviced Portfolio by acquiring loan portfolios from rural land dealers, resort developers and financial institutions and by providing loans to such dealers, developers and other finance companies secured by receivables. The Company also provides A&D Loans in order to have the opportunity to finance additional receivables generated by these A&D loans. As part of its business and financing strategy, the Company seeks niche markets where its underwriting expertise and ability to provide value-added services enable it to distinguish itself from its competitors and earn an attractive rate of return on its invested capital. Initially, the Company pursued this strategy by financing consumer Land Loans through a land dealer network and portfolio acquisitions. Subsequently, the Company extended its strategy to financing consumer VOI Loans and providing Hypothecation Loans to land dealers and resort developers. In 1995, the Company significantly expanded its financing of VOIs when it acquired approximately \$41.5 million of VOI related loans and assets as part of its purchase of the Government Employees Financial Corporation ("GEFCO") portfolio. In 1997 and 1998, the Company has expanded its financing of Hypothecation Loans to other finance companies secured by other types of receivables, which to date have included construction loans, tax lien certificates and healthcare receivables. The Company expects to continue to expand its specialty finance company lending. These loans may be larger than the Company's average Hypothecation Loans and may provide the Company an option to take an equity position in the borrower. The Company's objective is to identify other lending opportunities or lines of business to diversify its portfolio as it did with VOI Loans and Hypothecation Loans.

RISK FACTORS

In addition to the other information in this Prospectus, the following factors should be considered carefully in evaluating an investment in the shares of Common Stock offered hereby:

General Business Risks. The Company's business is subject to various business risks. The level of the Company's revenues is dependent upon demand for the type of loans purchased, sold and serviced by the Company from both potential borrowers and investors. Future declines in real estate values, changes in prevailing interest rates and changes in the availability of attractive returns on alternative investments each could make loans of the type originated and purchased by the Company less attractive to borrowers and investors.

Funding and Liquidity. The Company has a constant need for working capital to fund its lending, purchasing and securitization activities and, as a result, generally has experienced negative cash flows from operations. Historically, the Company has funded any negative cash flows from operations by borrowing under secured lines of credit and issuing long-term debt and equity securities. The Company's lines of credit are renewable on one to three year bases. The Company had secured lines of credit totaling \$117.5 million with six financial institutions as of March 31, 1998. Outstanding borrowings on these lines of credit were \$23,125,000 at March 31, 1998. To date, the Company has issued \$122.8 million of long-term debt and has publicly issued \$25.6 million of equity securities.

The Company also has a \$125.0 million revolving line of credit and sale facility as part of an asset backed commercial paper facility with a multi-seller commercial paper conduit. The facility expires in June 1998. The Company expects to extend the term of the facility to June 2001 prior to its expiration and to increase the amount of the facility to \$150.0 million subject to substantially the same terms and conditions. As of March 31, 1998, the outstanding balance of the sold or pledged loans securing this facility was \$116.6 million. Outstanding borrowings on this facility were \$97,000 at March 31, 1998. The Company has an additional revolving line of credit and sale facility of \$25.0 million with another multi-seller commercial paper conduit. The facility expires in March 2000. As of March 31, 1998, the outstanding aggregate balance of the sold or pledged loans under the facility was \$13.3 million.

There can be no assurance that the Company will continue to be able to obtain financing or raise capital on terms satisfactory to the Company. To the extent the Company cannot raise additional funds, lack of liquidity could have a material adverse impact on its operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

Impact of Economic Cycles. The business risks associated with the Company's business become more acute in an economic slowdown. Asset values generally decrease and delinquencies, foreclosures and loan losses generally increase during economic slowdowns or recessions, and any such future slowdowns could adversely affect future operations of the Company. See "Business -- Collections and Delinquencies."

Interest Rate Risk. The Company's interest and fees on loans, gain on sale of loans and interest expense are affected by changes in interest rates. The Company could be adversely affected by interest rate increases if its variable rate liabilities exceed its variable rate assets or if the rates on its variable rate liabilities increase sooner or to a greater extent than the rates on its variable rate assets.

The Company seeks to mitigate a portion of its interest rate risk by attempting to match fixed and variable rate assets and liabilities, instituting interest rate floors and by entering into interest rate swaps on certain of its variable rate assets, and purchasing interest rate caps on certain of its variable rate liabilities. There can be no assurance that the Company's attempts to mitigate its interest rate risk will be effective.

Competition. The finance business is highly competitive, with competition occurring primarily on the basis of customer service and the term and interest rate of the loans. Traditional competitors in the finance business include commercial banks, credit unions, thrift institutions, industrial banks and other finance companies, many of which have considerably greater financial, technical and marketing resources than the Company. There can be no assurance that the Company will not face increased competition from existing or new financial institutions and finance companies. In addition, the Company may enter new lines of business

that may be highly competitive and may have competitors with greater financial resources than the Company. See "Business -- Competition."

Credit Risks. The Company's loans are subject to delinquency and default risk. General downturns in the economy and other factors beyond the Company's control may have an adverse effect on the Company's delinquency and default rates. The Company's A&D Loans and, to a lesser extent, its Hypothecation Loans have a greater concentration of credit risk due to their larger size and their development and marketing risk.

The Company's VOI business is subject to certain risks associated with VOI ownership. Although individual VOI owners are obligated to make payments under their notes irrespective of any defect in, damage to, or change in conditions of the vacation resort (such as erosion, construction of adjacent or nearby properties, or environmental problems) or of any breach of contract by the property owners association to provide certain services to the VOI borrowers (including any such breach resulting from a destruction of the resort) or of any other loss of benefits of ownership of their unit week(s) (including cessation of the ability of the borrowers to exchange their time intervals in the resort for time intervals in other unaffiliated resorts), any such material defect, damage, change, breach of contract, or loss of benefits is likely to result in a delay in payment or default by a substantial number of the borrowers whose VOIs are affected. The costs of foreclosure and resale of unit weeks securing defaulted loans are likely to be substantially higher than such costs for traditional mortgage loans, and this may materially affect the amounts realized by the Company on defaulted loans.

Estimates of Future Prepayment and Default Rates. A significant portion of the Company's revenues historically has been comprised of gains on sales of loans. The gains are recorded in the Company's revenues and on its balance sheet (as retained interests on loan sales) at the time of sale, and the amount of gains recorded is based in part on management's estimates of future prepayment and default rates and other considerations in light of then-current conditions. If actual prepayments with respect to loans occur more quickly than was projected at the time such loans were sold, as can occur when interest rates decline, interest income would be less than expected and earnings would be charged in the current period. If actual defaults with respect to loans sold are greater than estimated, charge-offs would exceed previously estimated amounts and earnings would be charged in the current period.

Expansion of Business. The Company has increased the number and average principal amount of its Hypothecation and A&D Loans. A&D Loans are larger commercial loans to land dealers and resort developers and, consequently, have a greater concentration of credit risk than the Company's Purchased Loans. A&D Loans for timeshare resorts are also subject to greater risk because their repayment depends on the successful completion of the development of the resort and the subsequent successful sale of a substantial portion of the resort's timeshare interests. The Company may seek to limit its exposure to any one developer by participating a portion of an A&D Loan with another lender.

The Company has historically made Hypothecation Loans to land dealers and resort developers secured by Land Loans and VOI Loans, respectively. Hypothecation Loans are commercial loans that have significantly larger balances than the Company's Purchased Loans and, consequently, have a greater concentration of credit risk which is only partially offset by the lesser concentration of credit risk of the underlying collateral.

In addition, the Company has recently expanded its marketing of Hypothecation Loans to include loans to other finance companies secured by other types of receivables. These loans may be subject to additional risk because the Company has relatively less experience with these other types of receivables than with Land Loans or VOI Loans. In addition, these loans may be larger than the Company's average Hypothecation Loans and may provide the Company with an option to take an equity position in the borrower.

Fluctuations in Quarterly Results of Operations. Since gains on sales of loans are a significant portion of the Company's revenues, the timing of loan sales has a significant effect on the Company's quarterly results of operations, and the results of one quarter are not necessarily indicative of results for the next quarter. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Contingent Repurchase Obligations. In connection with certain of the Company's whole loan sales to investors, the Company has committed to repurchase such loans that become 90 days past due. These contingent obligations are subject to various terms and conditions, including limitations on the amounts of loans which must be repurchased. The Company has also guaranteed payment of mortgage loans included in certain of its mortgage securitization programs. As of March 31, 1998, the Company had outstanding contingent repurchase obligations in the aggregate amount of approximately \$9.9 million. In addition, when the Company sells mortgage loans through mortgage securitization programs, the Company commits to replace any loans that do not conform to certain representations and warranties included in the operative loan sale documents.

Third Party Servicer. The Company uses a third party servicer to service its loans. The third party servicer's systems and controls support the servicing, collecting and monitoring of the Serviced Portfolio as well as certain accounting and management functions of the Company. There can be no assurance that the third party servicer will continue to provide these services in the future or that its systems and controls will continue to be adequate to support the Company's growth. A failure of the third party servicer's automated systems or its controls over data integrity or accuracy could have a material adverse effect on the Company's operations and financial condition. The Company expects to resume certain customer service and collection functions during the third quarter of 1998.

Year 2000 Compliance. The Company uses and is dependent upon a significant number of computer software programs and operating systems to conduct its business. The Company believes that substantially all of its operating systems are year 2000 compliant. To the extent that the Company relies on outside software vendors, year 2000 compliance matters will not be within the Company's direct control. In addition, the Company has relationships with vendors, customers and other third parties that rely on computer software that may not be year 2000 compliant. There can be no assurance that year 2000 compliance failures by such third parties will not have a material adverse effect on the Company's results of operations.

Regulation. The operations of the Company are subject to extensive regulation by federal, state and local government authorities and are subject to various laws and judicial and administrative decisions imposing various requirements and restrictions, including among other things, regulating credit granting activities, establishing maximum interest rates and finance charges, requiring disclosures to customers, governing secured transactions and setting collection, repossession and claims handling procedures and other trade practices. In addition, certain states have enacted legislation which restricts the subdivision of rural land and numerous states have enacted regulations in connection with VOIs. Although the Company believes that its activities are in compliance in all material respects with applicable federal, state and local laws, rules and regulations, there can be no assurance that more restrictive laws, rules and regulations or interpretations thereof will not be adopted in the future which could make compliance much more difficult or expensive, restrict the Company's ability to originate, purchase or sell loans, further limit or restrict the amount of interest and other charges earned under loans originated or purchased by the Company, or otherwise adversely affect the business or prospects of the Company. See "Business -- Regulation."

Environmental Liabilities. In the course of its business, the Company has acquired, and may in the future acquire, properties securing defaulted loans. Although substantially all of the Company's Land Loans are secured by mortgages on rural land, there is a risk that hazardous substances or waste could be discovered on such properties after foreclosure by the Company. In such event, the Company might be required to remove such substances from the affected properties at its sole cost and expense. There can be no assurances that the cost of such removal would not substantially exceed the value of the affected properties or the loans secured by the properties or that the Company would have adequate remedies against the prior owner or other responsible parties, or that the Company would not find it difficult or impossible to sell the affected properties either prior to or following any such removal.

Dependence on Senior Management. The Company's success depends upon the continued contributions of its senior management. The loss of services of certain of the Company's executive officers could have an adverse effect upon the Company's business. The Company maintains key man insurance on the life of Richard A. Stratton, its Chief Executive Officer and President.

INCORPORATION OF DOCUMENTS BY REFERENCE

The following documents filed by the Company with the Commission pursuant to the Exchange Act, are incorporated in and made a part of this Prospectus by reference:

- (a) The Company's Annual Report on Form 10-K for the year ended December 31, 1997.
- (b) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998.
- (c) The definitive Proxy Statement dated March 24, 1998 for the Annual Meeting of the Company's stockholders held on April 24, 1998.

All reports and any definitive proxy or information statements filed by the Company with the Commission pursuant to Sections 13, 14 and 15 (d) of the Exchange Act subsequent to the date of this Prospectus and prior to the termination of the offering of the shares offered hereby shall be deemed to be incorporated by reference in this Prospectus and to be a part hereof from the date of filing of such documents.

Any statement contained in a document incorporated or deemed to be incorporated herein by reference shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated herein by reference modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

The Company will provide without charge to each person, including any beneficial owner, to whom a copy of this Prospectus is delivered, on the written or oral request of any such person, a copy of any or all of the documents incorporated herein by reference (other than exhibits not specifically incorporated in such documents). Requests for such copies should be directed to Ronald E. Rabidou, Chief Financial Officer and Treasurer, Litchfield Financial Corporation, 430 Main Street, Williamstown, MA 01267 (telephone number: 413-458-1000).

FORWARD-LOOKING STATEMENTS

Except for the historical information contained or incorporated by reference in this Prospectus, the matters discussed or incorporated by reference herein are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the risk factors set forth under "Risk Factors" as well as the following: general economic and business conditions; industry trends; changes in business strategy or development plans; availability and quality of management; and availability, terms and deployment of capital. Special attention should be paid to such forward-looking statements including, but not limited to, statements relating to (i) the Company's ability to execute its growth strategies and to realize its growth objectives and (ii) the Company's ability to obtain sufficient resources to finance its working capital needs and provide for its known obligations.

USE OF PROCEEDS

The net proceeds to the Company from the sale of the Common Stock offered hereby are estimated to be \$ after deducting the underwriting discount and estimated offering expenses payable by the Company. It is expected that the net proceeds of this Offering will be used to repay certain amounts outstanding under the Company's lines of credit and for general corporate purposes. The Company will not receive any proceeds from the sale of Common Stock by the Selling Stockholders. (It is anticipated that the Company will, however, receive an aggregate of approximately \$110,000 from a Selling Stockholder upon the exercise of stock options in connection with the sale of shares offered hereby.)

CAPITALIZATION

The following table sets forth the capitalization of the Company as of March 31, 1998, and as adjusted to reflect the sale of 1,000,000 of the shares of Common Stock offered hereby by the Company and the issuance of 40,000 shares of Common Stock (being offered hereby by a Selling Stockholder) upon the exercise of outstanding options by a Selling Stockholder, and the application of the net proceeds as set forth under "Use of Proceeds."

	MARCH 31, 1998	
	ACTUAL	AS ADJUSTED
Long-term debt:		
Notes.....	\$105,347,000	\$105,347,000
Stockholders' equity:		
Preferred stock, \$.01 par value; authorized 1,000,000 shares, none issued and outstanding.....	--	--
Common stock, \$.01 par value; authorized 8,000,000 shares, 5,660,790 shares issued and outstanding (6,707,751 shares issued and outstanding, as adjusted)(1)(2).....	56,000	
Additional paid in capital.....	36,727,000	
Net unrealized gain on retained interests in loan sales...	1,047,000	1,047,000
Retained earnings.....	15,813,000	15,813,000
 Total stockholders' equity.....	 53,643,000	
 Total capitalization(3).....	 \$158,990,000	 \$

(1) Excludes 752,030 shares issuable upon exercise of outstanding stock options under the Company's 1990 Stock Option Plan at May 4, 1998, of which options for 553,138 shares were exercisable as of such date, and 12,864 shares issuable upon exercise of outstanding stock options under the Company's 1995 Stock Option Plan for Non-Employee Directors at May 4, 1998, of which options for 12,864 shares were exercisable as of such date. See "Principal and Selling Stockholders".

(2) At the Company's Annual Meeting held on April 24, 1998, the stockholders voted to increase the authorized shares of common stock from 8,000,000 to 12,000,000.

(3) Total capitalization includes total stockholders' equity and total long-term debt.

MARKET PRICE OF AND DIVIDENDS ON COMMON STOCK

The following table sets forth for the periods indicated the high and low sale prices of the Common Stock as reported by The Nasdaq Stock Market's National Market under the symbol "LTCH." All share prices have been adjusted for a 5% stock dividend in each of 1996 and 1995.

On May 20, 1998, the last reported sale price of the Common Stock as reported by The Nasdaq Stock Market's National Market was \$23 3/4 per share. As of March 12, 1998, the approximate number of holders of record of the Common Stock was 1,100.

	HIGH ---	LOW ---	DIVIDENDS -----
1995			
1st Quarter.....	10 7/8	9 5/8	--
2nd Quarter.....	12 7/8	10	--
3rd Quarter.....	16	12 3/8	--
4th Quarter.....	15 1/4	12 3/8	\$.04
1996			
1st Quarter.....	13 5/8	11	--
2nd Quarter.....	14 1/4	12 7/8	--
3rd Quarter.....	15	11 1/2	--
4th Quarter.....	15	12 1/2	\$.05
1997			
1st Quarter.....	16 3/4	14	--
2nd Quarter.....	17	13 7/8	--
3rd Quarter.....	21 3/4	16 3/8	--
4th Quarter.....	21 1/2	16 1/2	\$.06
1998			
1st Quarter.....	24	17 1/2	--
2nd Quarter (through May 20, 1998).....	24	21	--

The Company paid annual cash dividends of \$.06 per share in 1997, \$.05 per share in 1996 and \$.04 per share in 1995. In addition, the Company paid a 5% stock dividend in each of 1996 and 1995. Any declaration and payment of future dividends will be determined at the discretion of the Board of Directors in light of then current conditions, including the Company's earnings, financial condition and cash requirements, restrictions in its debt agreements and other factors the Board of Directors determines relevant. The Company's outstanding long-term debt agreements contain certain restrictions on its ability to pay dividends.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEAR ENDED DECEMBER 31,					THREE MONTHS ENDED MARCH 31,	
	1993	1994	1995	1996	1997	1997	1998
STATEMENT OF INCOME DATA(1):							
Revenues:							
Interest and fees on loans.....	\$ 4,330	\$ 5,669	\$ 11,392	\$ 14,789	\$ 19,374	\$ 4,546	\$ 5,233
Gain on sale of loans.....	4,550	4,847	5,161	7,331	8,564	1,504	2,227
Servicing and other fee income.....	501	459	908	1,576	1,753	357	493
Total revenues.....	9,381	10,975	17,461	23,696	29,691	6,407	7,953
Expenses:							
Interest expense.....	2,717	3,158	6,138	7,197	10,675	2,394	2,997
Salaries and employee benefits.....	1,350	1,776	2,798	2,824	3,399	813	1,133
Other operating expenses.....	1,017	1,164	2,120	3,147	3,480	903	953
Provision for loan losses.....	620	559	890	1,954	1,400	435	350
Total expenses.....	5,704	6,657	11,946	15,122	18,954	4,545	5,433
Income before income taxes and extraordinary item.....	3,677	4,318	5,515	8,574	10,737	1,862	2,520
Provision for income taxes.....	1,426	1,619	2,066	3,301	4,134	717	970
Income before extraordinary item.....	2,251	2,699	3,449	5,273	6,603	1,145	1,550
Extraordinary item(2).....	--	(126)	--	--	(220)	--	--
Net income.....	\$ 2,251	\$ 2,573	\$ 3,449	\$ 5,273	\$ 6,383	\$ 1,145	\$ 1,550
Basic per common share amounts:							
Income before extraordinary item.....	\$.55	\$.66	\$.80	\$.97	\$ 1.19	\$.21	\$.27
Extraordinary item.....	--	(.03)	--	--	(.04)	--	--
Net income per share.....	\$.55	\$.63	\$.80	\$.97	\$ 1.15	\$.21	\$.27
Basic weighted average number of shares							
outstanding.....	4,065,688	4,116,684	4,315,469	5,441,636	5,572,465	5,446,679	5,659,756
Diluted per common share amounts:							
Income before extraordinary item.....	\$.53	\$.63	\$.76	\$.93	\$ 1.12	\$.20	\$.26
Extraordinary item.....	--	(.03)	--	--	(.04)	--	--
Net income per share.....	\$.53	\$.60	\$.76	\$.93	\$ 1.08	\$.20	\$.26
Diluted weighted average number of shares							
outstanding.....	4,216,151	4,282,884	4,524,607	5,682,152	5,909,432	5,792,078	6,020,158
Cash dividends declared per common share...	\$.02	\$.03	\$.04	\$.05	\$.06	\$ --	\$ --
OTHER STATEMENT OF INCOME DATA:							
Income before extraordinary item as a percentage of revenues.....	24.0%	24.6%	19.8%	22.3%	22.3%	17.9%	19.5%
Return on average assets(3).....	5.0%	4.6%	3.7%	4.0%	3.8%	2.8%	3.1%
Return on average equity(3).....	17.0%	17.2%	16.6%	13.3%	14.1%	10.6%	11.8%

(1) Certain amounts in the 1993 through 1996 financial information have been restated to conform to the 1997 and 1998 presentation.

(2) Reflects loss on early extinguishment of a portion of the 1992 Notes, net of applicable tax benefit of \$76,000, for 1994 and of the remainder of the 1992 Notes, net of applicable tax benefit of \$138,000, for 1997.

(3) The returns on average assets and average equity for the three month periods are calculated on an annualized basis. Calculations are based on income before extraordinary item. Historically, the Company's returns generally have been lower in the first quarter than for the respective fiscal year as a whole.

	DECEMBER 31,					MARCH 31,
	1993	1994	1995	1996	1997	1998
BALANCE SHEET DATA(4):						
Total assets.....	\$54,444	\$63,487	\$112,459	\$152,689	\$186,790	\$210,176
Loans held for sale(5).....	5,931	11,094	14,380	12,260	16,366	16,246
Other loans(5).....	10,306	15,790	33,613	79,996	86,307	116,816
Retained interests in loan sales(5).....	11,764	11,996	22,594	28,912	30,299	29,937
Secured debt.....	--	5,823	9,836	43,727	5,387	27,650
Unsecured debt.....	32,302	29,896	47,401	46,995	105,347	105,347
Stockholders' equity.....	14,722	16,610	37,396	42,448	52,071	53,643
OTHER FINANCIAL DATA:						
Loans purchased and originated(6).....	\$42,410	\$59,798	\$121,046	\$133,750	\$184,660	\$ 67,493
Loans sold(6).....	28,099	40,116	65,115	54,936	98,747	18,502
Loans participated(6).....	--	--	--	--	6,936	1,452
Serviced Portfolio(7).....	84,360	105,013	176,650	242,445	304,102	338,502
Loans serviced for others.....	59,720	72,731	111,117	129,619	179,790	184,157
Dealer/developer reserves.....	4,926	6,575	9,644	10,628	10,655	10,616
Allowance for loan losses(8).....	1,064	1,264	3,715	4,528	5,877	6,164
Allowance ratio(9).....	1.26%	1.20%	2.10%	1.87%	1.93%	1.82%
Delinquency ratio(10).....	.61%	.93%	1.73%	1.34%	1.20%	1.20%
Net charge-off ratio(6)(11).....	.69%	.38%	.67%	.94%	.74%	.66%
Non-performing asset ratio(12).....	1.48%	1.02%	1.35%	1.57%	1.03%	.84%

(4) In 1997 the Company adopted Statement of Financial Accounting Standards No.

125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Consequently, certain amounts included in the 1993 through 1996 financial statements have been reclassified to conform with the 1997 and 1998 presentation: "Subordinated pass through certificates held to maturity," "Excess servicing asset" and "Allowance for loans sold" have been reclassified as "Retained interests in loan sales." In addition, "Loans held for investment" have been reclassified as "Other loans."

(5) Amount indicated is net of allowance for loan losses.

(6) During the relevant period.

(7) The Serviced Portfolio consists of the principal amount of loans serviced by or on behalf of the Company, except loans participated without recourse to the Company.

(8) The allowance for loan losses includes the recourse obligation on retained interests in loan sales.

(9) The allowance ratio is the allowance for loan losses divided by the amount of the Serviced Portfolio.

(10) The delinquency ratio is the amount of delinquent loans divided by the amount of the Serviced Portfolio. Delinquent loans are those which are 30 days or more past due which are not covered by dealer/developer reserves or guarantees and not included in other real estate owned.

(11) The net charge-off ratio is determined by dividing the amount of net charge-offs for the period by the average Serviced Portfolio for the period. The March 31, 1998 amount is calculated on an annualized basis.

(12) The non-performing asset ratio is determined by dividing the sum of the amount of those loans which are 90 days or more past due and which are not covered by dealer/developer reserves or guarantees and other real estate owned by the amount of the Serviced Portfolio.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

OVERVIEW

Litchfield Financial Corporation (the "Company") is a specialty finance company that provides financing to creditworthy borrowers for assets not typically financed by banks. The Company provides such financing by purchasing consumer loans and by making loans to businesses secured by consumer receivables or other assets.

The Company purchases consumer loans (the "Purchased Loans") consisting primarily of loans to purchasers of rural and vacation properties ("Land Loans") and vacation ownership interests popularly known as timeshare interests ("VOI Loans"). Land Loans are typically secured by one to twenty acre rural parcels. VOI Loans typically finance the purchase of ownership interests ("VOIs") in fully furnished vacation properties.

The Company also provides financing to rural land dealers, timeshare resort developers and other finance companies secured by receivables ("Hypothecation Loans") and to dealers and developers for the acquisition and development of rural land and timeshare resorts ("A&D Loans"). In addition, the Company purchases other loans, such as consumer home equity loans and consumer construction loans, and provides financing to other businesses secured by receivables or other assets ("Other Loans").

The principal sources of the Company's revenues are (i) interest and fees on loans, (ii) gains on sales of loans and (iii) servicing and other fee income. Gains on sales of loans are based on the difference between the allocated cost basis of the assets sold and the proceeds received, which includes the fair value of any assets or liabilities that are newly created as a result of the transaction. Because a significant portion of the Company's revenues is comprised of gains realized upon sales of loans, the timing of such sales has a significant effect on the Company's results of operations.

RESULTS OF OPERATIONS

The following table sets forth the percentage relationship to revenues of certain items included in the Company's statements of income.

	YEAR ENDED DECEMBER 31,			THREE MONTHS ENDED MARCH 31,	
	1995	1996	1997	1997	1998
	-----	-----	-----	-----	-----
Revenues:					
Interest and fees on loans.....	65.2%	62.4%	65.3%	70.9%	65.8%
Gain on sale of loans.....	29.6	30.9	28.8	23.5	28.0
Servicing and other fee income.....	5.2	6.7	5.9	5.6	6.2
	-----	-----	-----	-----	-----
	100.0	100.0	100.0	100.0	100.0
	-----	-----	-----	-----	-----
Expenses:					
Interest expense.....	35.2	30.4	36.0	37.3	37.7
Salaries and employee benefits.....	16.0	11.9	11.4	12.7	14.2
Other operating expenses.....	12.1	13.3	11.7	14.1	12.0
Provision for loan losses.....	5.1	8.2	4.7	6.8	4.4
	-----	-----	-----	-----	-----
	68.4	63.8	63.8	70.9	68.3
	-----	-----	-----	-----	-----
Income before income taxes and extraordinary item.....	31.6	36.2	36.2	29.1	31.7
Provision for income taxes.....	11.8	13.9	13.9	11.2	12.2
	-----	-----	-----	-----	-----
Income before extraordinary item.....	19.8	22.3	22.3	17.9	19.5
Extraordinary item.....	--	--	(0.8)	--	--
	-----	-----	-----	-----	-----
Net income.....	19.8%	22.3%	21.5%	17.9%	19.5%
	=====	=====	=====	=====	=====

THREE MONTHS ENDED MARCH 31, 1998 COMPARED TO THREE MONTHS ENDED MARCH 31, 1997

Revenues increased 24.1% to \$7,953,000 for the three months ended March 31, 1998, from \$6,407,000 for the same period in 1997. Net income for the three months ended March 31, 1998 increased 35.4% to \$1,550,000 compared to \$1,145,000 for the same period in 1997. Loan originations grew 87.2% to \$67,493,000 for the three months ended March 31, 1998 from \$36,063,000 for the same period in 1997. Net income as a percentage of revenues increased to 19.5% for the three months ended March 31, 1998 from 17.9% for the same period in 1997. The Serviced Portfolio increased 32.1% to \$338,502,000 at March 31, 1998 from \$256,192,000 at March 31, 1997.

Interest and fees on loans increased 15.1% to \$5,233,000 for the three months ended March 31, 1998 from \$4,546,000 for the same period in 1997, primarily as the result of the higher average balance of other loans during the 1998 periods. The average rate earned on the Serviced Portfolio decreased to 12.0% at March 31, 1998 from 12.4% at March 31, 1997, primarily due to the effect of the growth in Hypothecation Loans as a percentage of the portfolio. Hypothecation Loan yields are usually less than Land Loan or VOI Loan yields, but Hypothecation Loans servicing costs and loan losses are generally less as well.

Gain on the sale of loans increased 48.1% to \$2,227,000 for the three months ended March 31, 1998 from \$1,504,000 in the same period in 1997. The volume of loans sold increased 53.6% to \$18,502,000 for the three months ended March 31, 1998 from \$12,043,000 during the corresponding period in 1997 primarily due to the growth in originations.

Servicing and other fee income increased 38.1% to \$493,000 for the three months ended March 31, 1998, from \$357,000 for the same period in 1997 mostly due to the increase in the other fee income resulting from the collection of a significant prepayment penalty from a Hypothecation Loan. Although loans serviced for others increased 40.4% to \$184,157,000 as of March 31, 1998 from \$131,162,000 at March 31, 1997, servicing income remained relatively constant due to an increase in Hypothecation Loans serviced for others and a decrease in the average servicing fee per loan.

Interest expense increased 25.2% to \$2,997,000 during the three months ended March 31, 1998 from \$2,394,000 for the same period in 1997. The increase in interest expense primarily reflects an increase in average borrowings. During the three months ended March 31, 1998, borrowings averaged \$119,122,000 at an average rate of 8.9% as compared to \$98,952,000 at an average rate of 8.9% during the same period in 1997. Interest expense includes the amortization of deferred debt issuance costs.

Salaries and employee benefits increased 39.4% \$1,133,000 for the three months ended March 31, 1998 from \$813,000 for the same period in 1997 because of an increase in the number of employees in 1998 and, to a lesser extent, an increase in salaries. Personnel costs as a percentage of revenues increased to 14.2% for the three months ended March 31, 1998 compared to 12.7% for the same period in 1997. As a percentage of the Serviced Portfolio, personnel costs increased to 1.34% for the three months ended March 31, 1998 from 1.27% for the same period in 1997.

Other operating expenses increased 5.5% to \$953,000 for the three months ended March 31, 1998 from \$903,000 for the same period in 1997. As a percentage of revenues, other operating expenses decreased to 12.0% for the three months ended March 31, 1998 compared to 14.1% for the corresponding period in 1997. As a percentage of the Serviced Portfolio, other operating expenses decreased to 1.13% for the three months ended March 31, 1998 from 1.41% for the same period in 1997.

During the three months ended March 31, 1998, the provision for loan losses decreased 19.5% to \$350,000 from \$435,000 for the same period in 1997. The provision for loan losses decreased because of the growth in Hypothecation Loans as a percentage of the Serviced Portfolio. Hypothecation Loans have experienced significantly lower delinquency and default rates than Purchased Loans.

YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996

Revenues increased 25.3% to \$29,691,000 for the year ended December 31, 1997, from \$23,696,000 for the year ended December 31, 1996. Net income for 1997 increased 21.1% to \$6,383,000 compared to

\$5,273,000 in 1996. Net income as a percentage of revenues was 21.5% for the year ended December 31, 1997 compared to 22.3% for the year ended December 31, 1996. Loan purchases and originations grew 38.1% to \$184,660,000 in 1997 from \$133,750,000 in 1996. The Serviced Portfolio increased 25.4% to \$304,102,000 at December 31, 1997 from \$242,445,000 at December 31, 1996.

Interest and fees on loans increased 31.0% to \$19,374,000 in 1997 from \$14,789,000 in 1996, primarily as the result of the higher average balance of loans held for sale and other loans during 1997. The average rate earned on loans owned and retained interests in loan sales decreased to 12.2% for the year ended December 31, 1997 from 12.5% for the year ended December 31, 1996, primarily due to the effect of the growth in Hypothecation Loans and A&D Loans as a percentage of the Serviced Portfolio. Hypothecation Loan and A&D Loan yields are usually less than Land Loan or VOI Loan yields, but servicing costs and loan losses are generally less as well.

Gain on the sale of loans increased 16.8% to \$8,564,000 in 1997 from \$7,331,000 in 1996. The volume of loans sold increased 79.7% to \$98,747,000 for the year ended 1997 from \$54,936,000 for the same period in 1996. Gain on sale of loans increased less than the volume of loans sold for the year ended December 31, 1997 primarily due to the lower yield on the sale of Hypothecation Loans in 1997 and, to a lesser extent, the lower amount of discount relating to loans sold. The yield on the sale of Hypothecation Loans is significantly less than the typical yield on sales of consumer receivables primarily due to shorter average maturities and the nature of the underlying collateral.

Servicing and other fee income increased 11.2% to \$1,753,000 for the year ended December 31, 1997, from \$1,576,000 for the year ended December 31, 1996 mostly due to the increase in other fee income resulting from the collection of significant prepayment penalties from a Hypothecation Loan and an A&D Loan in 1997. Although loans serviced for others increased 38.7% to \$179,790,000 at December 31, 1997 from \$129,619,000 at December 31, 1996, servicing income remained relatively constant due to a decrease in the average servicing fee per loan primarily as the result of the decrease in the number of purchased VOI Loans in the Serviced Portfolio.

Interest expense increased 48.3% to \$10,675,000 for 1997, from \$7,197,000 in 1996. The increase in interest expense primarily reflects an increase in average borrowings that were only partially offset by a decrease in average rates. During the year ended December 31, 1997, borrowings averaged \$107,900,000 at an average rate of 9.1% compared to \$71,800,000 and 9.3%, respectively, during 1996. Interest expense includes the amortization of deferred debt issuance costs.

Salaries and employee benefits increased 20.4% to \$3,399,000 for the year ended December 31, 1997 from \$2,824,000 for the year ended December 31, 1996 because of an increase in the number of employees and, to a lesser extent, an increase in salaries. The number of full time equivalents increased to 71 at December 31, 1997 compared to 57 at December 31, 1996. Personnel costs as a percentage of revenues decreased slightly to 11.4% for the year ended December 31, 1997 compared to 11.9% in 1996. As a percentage of the Serviced Portfolio, personnel costs decreased to 1.12% for the year ended December 31, 1997 from 1.16% for the same period in 1996.

Other operating expenses increased 10.6% to \$3,480,000 for the year ended December 31, 1997 from \$3,147,000 for the same period in 1996 primarily as the result of the growth in the Serviced Portfolio. As a percentage of revenues, other operating expenses decreased to 11.7% in 1997 compared to 13.3% in 1996. As a percentage of the Serviced Portfolio, other operating expenses decreased to 1.14% for 1997 from 1.30% for 1996.

During 1997, the provision for loan losses decreased 28.4% to \$1,400,000 from \$1,954,000 in 1996. The provision for loan losses decreased despite the increase in loans owned and retained interests in loans sold because of the growth in Hypothecation Loans as a percentage of the Serviced Portfolio. Hypothecation Loans have experienced significantly lower delinquency and default rates than Purchased Loans.

YEAR ENDED DECEMBER 31, 1996 COMPARED TO YEAR ENDED DECEMBER 31, 1995

Revenues increased 35.7% to \$23,696,000 for the year ended December 31, 1996, from \$17,461,000 for the year ended December 31, 1995. Net income for the year ended December 31, 1996 increased 52.9% to \$5,273,000 compared to \$3,449,000 in 1995. Net income as a percentage of revenues was 22.3% for the year ended December 31, 1996 compared to 19.8% for the year ended December 31, 1995. Loan originations grew 10.5% to \$133,750,000 in 1996 from \$121,046,000 in 1995. Excluding the 1995 purchase of \$41,500,000 of loans from the Government Employees Financial Corporation ("GEFCO"), originations increased 68.1%. The Serviced Portfolio increased 37.2% to \$242,445,000 at December 31, 1996 from \$176,650,000 at December 31, 1995.

Interest and fees on loans increased 29.8% to \$14,789,000 in 1996 from \$11,392,000 in 1995, primarily as the result of increases in loans held for investment, subordinated pass-through certificates and fees related to Hypothecation Loan originations. The average rate earned on loans owned and subordinated pass-through certificates decreased to 12.5% for the year ended December 31, 1996 from 13.2% in 1995, primarily due to the effect of the growth in Hypothecation Loans as a percentage of the loan portfolio. Hypothecation Loan yields are usually less than Land Loan or VOI Loan yields, but Hypothecation Loan servicing costs and loan losses are generally less as well.

Gain on the sale of loans increased 42.0% to \$7,331,000 in 1996 from \$5,161,000 in 1995. The volume of loans sold decreased 15.6% to \$54,936,000 for the year ended 1996 from \$65,115,000 in 1995. The primary reason for the increase in the gain on sale of loans despite the decrease in the volume of loans sold was that the Company did not recognize any gain on the sale of \$27,155,000 of VOI Loans purchased from GEFCO in the second quarter of 1995.

Loans serviced for others increased 16.7% to \$129,619,000 at December 31, 1996 from \$111,117,000 at December 31, 1995. Servicing and other fee income increased 73.6% to \$1,576,000 for the year ended December 31, 1996, from \$908,000 in 1995 because of the higher average Serviced Portfolio in 1996. In connection with the Company's continued growth, the Company decided to subcontract its servicing rights in order to avoid incurring additional fixed overhead costs associated with such servicing. Accordingly, the Company subcontracted to an unaffiliated third party the servicing of VOI Loans in 1995 and the remaining loans in April 1996.

Interest expense increased 17.3% to \$7,197,000 for the year ended December 31, 1996, from \$6,138,000 in 1995. The increase in interest expense primarily reflects an increase in average borrowings which was only partially offset by a decrease in average rates. During the year ended December 31, 1996, borrowings averaged \$71,800,000 at an average rate of 9.3% as compared to \$60,500,000 and 9.7%, respectively, during 1995. Interest expense includes the amortization of deferred debt issuance costs.

Salaries and employee benefits remained relatively constant at \$2,824,000 for the year ended December 31, 1996 from \$2,798,000 in 1995 despite increases in incentive compensation, salaries and the average number of employees in 1996. The average number of employees increased to 56 in 1996 from 45 in 1995, primarily as the result of the GEFCO acquisition. The number of full time equivalents increased to 57 at December 31, 1996 compared to 55 at December 31, 1995. The small increase in the number of full-time equivalents despite the significant growth in originations and the Serviced Portfolio described above is partially the result of subcontracting servicing to a third party. As a result, personnel costs as a percentage of revenues decreased to 11.9% for the year ended December 31, 1996 compared to 16.0% in 1995.

Other operating expenses increased 48.4% to \$3,147,000 for the year ended December 31, 1996 from \$2,120,000 for the same period in 1995 primarily as the result of the subcontracting of servicing to a third party. As a percentage of revenues, other operating expenses increased to 13.3% in 1996 compared to 12.1% in 1995.

During 1996, the Company increased its provision for loan losses 119.6% to \$1,954,000 from \$890,000 in 1995, primarily as the result of the overall increase in the Serviced Portfolio as well as the proportionate increase in the percentage of nonguaranteed loans in the Serviced Portfolio. Historically, the loan loss rate for nonguaranteed loans has been higher than the rate for guaranteed loans.

LIQUIDITY AND CAPITAL RESOURCES

The Company's business requires continued access to short and long-term sources of debt financing and equity capital. The Company's principal cash requirements arise from loan originations, repayment of debt on maturity, payments of operating and interest expenses and loan repurchases. The Company's primary sources of liquidity are loan sales, short-term borrowings under secured lines of credit, long-term debt and equity offerings and cash flows from operations.

Since its inception, the Company has sold \$366,700,000 of loans at face value (\$348,198,000 through December 31, 1997). The principal amount remaining on the loans sold was \$184,157,000 at March 31, 1998 and \$179,790,000 at December 31, 1997. In connection with certain loan sales, the Company commits to repurchase from investors any loans that become 90 days or more past due. This obligation is subject to various terms and conditions, including, in some instances, a limitation on the amount of loans that may be required to be repurchased. There were approximately \$9,940,000 of loans at March 31, 1998 which the Company could be required to repurchase in the future should such loans become 90 days or more past due. The Company repurchased \$118,000 and \$335,000 of loans under the recourse provisions of loan sales during the three months ended March 31, 1998 and 1997, respectively. As of March 31, 1998, \$22,751,000 of the Company's cash was restricted as credit enhancement for certain securitization programs. To date, the Company has sold participations in \$8,388,000 of A&D and Other Loans without recourse to the Company (\$6,936,000 through December 31, 1997).

The Company funds its loan purchases in part with borrowings under various lines of credit. Lines are paid down when the Company receives the proceeds from the sale of the loans or when cash is otherwise available. These lines of credit totaled \$116,000,000 at March 31, 1998 and December 31, 1997. Outstanding borrowings on these lines of credit were \$22,627,000 at March 31, 1998, and none at December 31, 1997. At March 31, 1998 and December 31, 1997, lines of credit also included a \$1,500,000 construction mortgage loan, under which there were outstanding borrowings of \$498,000 and \$8,000, respectively. Interest rates on these lines of credit range from the Eurodollar or LIBOR rate plus 2% to the prime rate plus 1.25%. The Company is not required to maintain compensating balances or forward sales commitments under the terms of these lines of credit.

The Company also finances its loan purchases with two revolving line of credit and sale facilities as part of asset backed commercial paper facilities with multi-seller commercial paper issuers. Such facilities totaled \$150,000,000 at March 31, 1998 and December 31, 1997. One of the facilities, totalling \$125,000,000, expires in June 1998. The Company expects to extend the term of such facility to June 2001 prior to its expiration and to increase the amount of such facility to \$150,000,000 subject to substantially the same terms and conditions. As of March 31, 1998 and December 31, 1997, the outstanding balances of loans sold or pledged under these facilities were \$129,873,000 and \$121,142,000, respectively. Outstanding borrowings under these lines of credit were \$97,000 at March 31, 1998 and \$169,000 at December 31, 1997. Interest is payable on these lines of credit based on certain commercial paper rates.

The Company also finances its liquidity needs with long-term debt. Long-term debt totaled \$105,347,000 at March 31, 1998 and December 31, 1997.

The Company also has a term note payable monthly based on the collection of the underlying collateral. The note is currently redeemable only with the approval of the noteholder. The note is collateralized by certain of the Company's retained interests in loan sales and cash. The balance outstanding on the note was \$4,428,000 and \$5,210,000 at March 31, 1998 and December 31, 1997, respectively.

In June 1997, the Company entered into two interest rate swap agreements. The swap agreements involve the payment of interest to the counterparty at the prime rate on a notional amount of \$110,000,000 and the receipt of interest at the commercial paper rate plus a spread and the LIBOR rate plus a spread on notional amounts of \$80,000,000 and \$30,000,000, respectively. The swap agreements expire in June 2000. There is no exchange of the notional amounts upon which interest payments are based.

Historically, the Company has not required major capital expenditures to support its operations.

CREDIT QUALITY AND ALLOWANCES FOR LOAN LOSSES

The Company maintains allowances for loan losses and recourse obligations on retained interests in loan sales at levels which, in the opinion of management, provide adequately for current and estimated future losses on such assets. Past-due loans (loans 30 days or more past due which are not covered by dealer/developer reserves and guarantees and not included in other real estate owned) as a percentage of the Serviced Portfolio remained constant at 1.20% as of March 31, 1998 compared with December 31, 1997, and decreased compared with 1.34% at March 31, 1997. Management evaluates the adequacy of the allowances on a quarterly basis by examining current delinquencies, the characteristics of the accounts, the value of the underlying collateral, and general economic conditions and trends. Management also evaluates the extent to which dealer/developer reserves and guarantees can be expected to absorb loan losses. When the Company does not receive guarantees on loan portfolios purchased, it adjusts its purchase price to reflect anticipated losses and its required yield. This purchase adjustment is recorded as an increase in the allowance for loan losses and is used only for the respective portfolio. A provision for loan losses is recorded in an amount deemed sufficient by management to maintain the allowances at adequate levels. Total allowances for loan losses and recourse obligations on retained interests in loan sales increased to \$6,164,000 at March 31, 1998 compared to \$5,877,000 at December 31, 1997. The allowance ratio (the allowances for loan losses divided by the amount of the Serviced Portfolio) at March 31, 1998 decreased slightly to 1.82% from 1.93% at December 31, 1997.

As part of the Company's financing of Purchased Loans, arrangements are entered into with dealers and resort developers, whereby reserves are established to protect the Company from potential losses associated with such loans. As part of the Company's agreement with the dealers and resort developers, a portion of the amount payable to each dealer and resort developer for a Purchased Loan is retained by the Company and is available to the Company to absorb loan losses for those loans. The Company negotiates the amount of the reserves with the dealers and developers based upon various criteria, two of which are the financial strength of the dealer or developer and credit risk associated with the loans being purchased. Dealer/developer reserves amounted to \$10,616,000 and \$10,655,000 at March 31, 1998 and December 31, 1997, respectively. The Company generally returns any excess reserves to the dealer/developer on a quarterly basis as the related loans are repaid by borrowers.

IMPACT OF YEAR 2000

As the year 2000 approaches, an issue impacting all companies has emerged regarding how existing application software programs and operating systems can accommodate this date value. Substantially all of the Company's operating systems are already year 2000 compliant. The Company does not expect to incur any significant additional costs to make its remaining applications year 2000 compliant.

INFLATION

Inflation has not had a significant effect on the Company's operating results to date.

BUSINESS

OVERVIEW

The Company purchases and services Land Loans which are typically secured by one to twenty acre rural parcels. The Company also purchases and services VOI Loans which finance the purchase of ownership interests in a fully furnished vacation property. The Company makes Hypothecation Loans to rural land dealers and resort developers and other businesses secured by receivables. The Company also makes A&D Loans to rural land dealers and resort developers in order to finance additional receivables generated by these A&D Loans. The Company sells substantially all the Land Loans and VOI Loans it purchases and certain of the Hypothecation Loans it originates either as whole loans or securitizations. The principal sources of the Company's revenues are (i) interest and fees on loans, (ii) gains from the sale of loans and (iii) servicing and other fee income. Because a significant portion of the Company's revenues is comprised of gains realized upon sales of loans, the timing of such sales has a significant effect on the Company's results of operations.

CHARACTERISTICS OF THE SERVICED PORTFOLIO, LOAN PURCHASES AND ORIGINATIONS

The following table shows the growth in the diversity of the Serviced Portfolio from primarily Purchased Loans to a mix of Purchased Loans, Hypothecation Loans, A&D Loans and Other Loans:

	DECEMBER 31,					MARCH 31,
	1993	1994	1995	1996	1997	1998
Purchased Loans.....	89.0%	85.3%	81.6%	67.1%	56.6%	52.5%
Hypothecation Loans.....	5.0	9.0	12.5	20.7	26.9	32.3
A&D Loans.....	4.3	3.3	3.1	8.7	13.7	12.8
Other Loans.....	1.7	2.4	2.8	3.5	2.8	2.4
Total.....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The following table shows the growth in the diversity of the Company's originations from primarily Purchased Loans to a mix of Purchased Loans, Hypothecation Loans, A&D Loans and Other Loans:

	YEAR ENDED DECEMBER 31,					THREE MONTHS ENDED MARCH 31,	
	1993	1994	1995	1996	1997	1997	1998
Purchased Loans.....	77.8%	67.6%	71.4%	49.9%	30.3%	34.6%	25.8%
Hypothecation Loans.....	11.8	22.2	20.9	29.6	37.1	46.7	58.2
A&D Loans.....	7.1	6.0	3.1	14.4	24.0	5.7	11.5
Other Loans.....	3.3	4.2	4.6	6.1	8.6	13.0	4.5
Total.....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Purchased Loans

The Company provides indirect financing to consumers through a large number of experienced land dealers and resort developers from which it regularly purchases land loans and VOI loans. The dealers and resort developers make loans to consumers generally using the Company's standard forms and subject to the Company's underwriting criteria. The Company then purchases such loans from the land dealers and resort developers on an individually approved basis in accordance with its credit guidelines.

Each land dealer and resort developer from whom the Company purchases loans is interviewed by the Company's management and approved by its credit committee. Management evaluates each land dealer's and resort developer's experience, financial statements and credit references and personally inspects a substantial portion of the land dealer's and resort developer's inventory of land and VOIs prior to approval of loan purchases.

In order to enhance the creditworthiness of loans purchased from land dealers and resort developers, the Company typically requires land dealers and resort developers to guarantee payment of the loans and typically retains a portion of the amount payable by the Company to each land dealer and resort developer on purchase of the loan. The retained portion, or reserve, is released to the land dealer or resort developer as the related loan is repaid.

Prior to purchasing land loans or VOI loans, the Company evaluates the credit and payment history of each borrower in accordance with its underwriting guidelines, performs borrower interviews on a sample of loans, reviews the documentation supporting the loans for completeness and obtains an appropriate opinion from local legal counsel. The Company purchases only those loans which meet its credit standards.

The Company also purchases portfolios of seasoned loans primarily from land dealers and resort developers. The land dealers or resort developers typically guarantee the loans sold and the Company typically withholds a reserve as described above. Management believes that the portfolio acquisition program is attractive to land dealers and resort developers because it provides them with liquidity to purchase additional inventory. The Company also purchases portfolios of seasoned loans from financial institutions and others. Sellers generally do not guarantee such loans, but the Company sets aside a portion of the purchase discount as an allowance for future loan losses.

In evaluating such seasoned portfolios, the Company conducts its normal review of the borrower's documentation, payment history and underlying collateral. However, the Company may not always be able to reject individual loans.

The Company's portfolio of Purchased Loans is secured by property located in 38 states.

	PRINCIPAL AMOUNT OF LOANS					
	DECEMBER 31,					MARCH 31,
	1993	1994	1995	1996	1997	1998
Southwest.....	18%	19%	16%	26%	30%	31%
South.....	33	37	31	31	31	30
West.....	2	3	20	20	17	19
Mid-Atlantic.....	17	16	16	10	10	9
Northeast.....	30	25	17	13	12	11
Total.....	100%	100%	100%	100%	100%	100%
	===	===	===	===	===	===

a. Land Loans

Dealers from whom the Company purchases Land Loans are typically closely-held firms with annual revenues of less than \$3.0 million. Dealers generally purchase large rural tracts (generally 100 or more acres) from farmers or other owners and subdivide the property into one to twenty acre parcels for resale to consumers. Generally the subdivided property is not developed significantly beyond the provision of graded access roads. In recreational areas, sales are made primarily to urban consumers who wish to use the property for a vacation or retirement home or for recreational purposes such as fishing, hunting or camping. In other rural areas, sales are more commonly made to persons who will locate a manufactured home on the parcel. The aggregate principal amount of Land Loans purchased from individual dealers during the three months ended March 31, 1998 varied significantly from a low of approximately \$9,000 to a high of approximately \$2.0 million. As of March 31, 1998 and December 31, 1997, the five largest dealers accounted for approximately 18.0% and 18.4%, respectively, of the principal amount of the Land Loans in the Serviced Portfolio. No single dealer accounted for more than 5.0% at March 31, 1998 or at December 31, 1997.

As of March 31, 1998 and December 31, 1997, 44.7% and 47.0%, respectively, of the Serviced Portfolio consisted of Land Loans. The average principal balance of such Land Loans was approximately \$13,200 and

\$13,000, respectively. The following table sets forth as of March 31, 1998 the distribution of Land Loans in the Company's Serviced Portfolio:

PRINCIPAL BALANCE	PRINCIPAL AMOUNT	PERCENTAGE OF PRINCIPAL AMOUNT	NUMBER OF LOANS	PERCENTAGE OF NUMBER OF LOANS
Less than \$10,000.....	\$ 27,448,000	18.1%	5,198	45.5%
\$10,000-\$19,999.....	58,650,000	38.7	4,120	36.0
\$20,000 and greater.....	65,325,000	43.2	2,118	18.5
Total.....	\$151,423,000	100.0%	11,436	100.0%

As of March 31, 1998 and December 31, 1997, the weighted average interest rate of the Land Loans included in the Company's Serviced Portfolio was 12.0% and 12.1%, respectively. The weighted average remaining maturity was 12.1 years at March 31, 1998 and December 31, 1997. The following table sets forth as of March 31, 1998 the distribution of interest rates payable on the Land Loans:

INTEREST RATE	PRINCIPAL AMOUNT	PERCENTAGE OF PRINCIPAL AMOUNT
Less than 12.0%.....	\$ 55,256,000	36.5%
12.0%-13.9%.....	70,131,000	46.3
14.0% and greater.....	26,036,000	17.2
Total.....	\$151,423,000	100.0%

As of March 31, 1998 and December 31, 1997, the Company's Land Loan borrowers resided in 50 states, the District of Columbia and two territories or foreign countries.

b. VOI Loans

The Company purchases VOI Loans from various resort developers. The Company generally targets small to medium size resorts with completed amenities and established property owners associations. These resorts participate in programs that permit purchasers of VOIs to exchange their timeshare intervals for timeshare intervals in other resorts around the world. During the three months ended March 31, 1998, the Company acquired approximately \$772,000 of VOI Loans. As of March 31, 1998 and December 31, 1997, the five largest developers accounted for approximately 37.1% and 36.6%, respectively, of the principal amount of the VOI Loans in the Serviced Portfolio, and no single developer accounted for more than 9.2% and 9.0%, respectively.

As of March 31, 1998 and December 31, 1997, 7.8% and 9.6%, respectively, of the Serviced Portfolio consisted of VOI Loans. The average principal balance of such VOI Loans was approximately \$3,500 and \$3,600, respectively. The following table sets forth as of March 31, 1998 the distribution of VOI Loans.

PRINCIPAL BALANCE	PRINCIPAL AMOUNT	PERCENTAGE OF PRINCIPAL AMOUNT	NUMBER OF LOANS	PERCENTAGE OF NUMBER OF LOANS
Less than \$4,000.....	\$ 9,442,000	35.9%	4,606	61.7%
\$4,000-\$5,999.....	8,654,000	32.9	1,754	23.5
\$6,000 and greater.....	8,192,000	31.2	1,100	14.8
Total.....	\$26,288,000	100.0%	7,460	100.0%

As of March 31, 1998 and December 31, 1997, the weighted average interest rate of the VOI Loans included in the Company's Serviced Portfolio was 14.6% and the weighted average remaining maturity was 3.8

years and 3.7 years, respectively. The following table sets forth as of March 31, 1998 the distribution of interest rates payable on the VOI Loans:

INTEREST RATE	PRINCIPAL AMOUNT	PERCENTAGE OF PRINCIPAL AMOUNT
-----	-----	-----
Less than 14.0%.....	\$10,906,000	41.5%
14.0%-15.9%.....	6,862,000	26.1
16.0% and greater.....	8,520,000	32.4
	-----	-----
Total.....	\$26,288,000	100.0%
	=====	=====

As of March 31, 1998 and December 31, 1997, the Company's VOI borrowers resided in 50 states, the District of Columbia and four territories or foreign countries.

(2) Hypothecation Loans

The Company extends Hypothecation Loans to land dealers and resort developers and other businesses secured by receivables. The Company has recently expanded its marketing of Hypothecation Loans to include loans to other finance companies secured by other types of collateral. These loans may be larger than the Company's average Hypothecation Loans and may provide the Company with an option to take an equity position in the borrower. During the three months ended March 31, 1998, the Company extended or acquired approximately \$39.2 million of Hypothecation Loans, of which \$1.6 million, or 4.1%, were secured by Land Loans, \$14.9 million, or 38.0%, were secured by VOI Loans and \$22.7 million, or 57.9%, were secured by other types of collateral.

The Company typically extends Hypothecation Loans based on advance rates of 75% to 90% of the eligible receivables which serve as collateral. The Company's Hypothecation Loans are typically made at variable rates based on the prime rate of interest plus 2% to 4%. As of March 31, 1998 and December 31, 1997, the Company had \$109.3 million and \$81.9 million of Hypothecation Loans outstanding, none of which were 30 days or more past due. During the three months ended March 31, 1998, the Company acquired a \$17.0 million participation interest in an Hypothecation Loan from another financial institution. As planned, subsequent to March 31, 1998, the Company purchased the underlying receivables, which the Company will classify as Other Loans in future periods. The proceeds of the receivables purchased were applied to pay off the Company's participation interest. At March 31, 1998, Hypothecation Loans, excluding the participation interest described above, ranged in size from \$6,900 to \$10.4 million with an average principal balance of \$1,198,000. At December 31, 1997, Hypothecation Loans ranged in size from \$7,800 to \$8.7 million with an average balance of \$1,204,000. The five largest Hypothecation Loans, excluding the participation interest described above, represented 10.3% and 10.7% of the Serviced Portfolio at March 31, 1998 and December 31, 1997, respectively.

(3) A&D Loans

The Company also makes A&D Loans to dealers and developers for the acquisition and development of rural and timeshare resorts in order to finance additional receivables generated by the A&D Loans. During the three months ended March 31, 1998, the Company made \$7.8 million of A&D Loans to land dealers and resort developers, of which \$1.7 million, or 21.8%, were secured by land and \$6.1 million, or 78.2%, were secured by resorts.

The Company generally makes A&D Loans to land dealers and resort developers based on loan to value ratios of 60% to 80% at variable rates based on the prime rate plus 2% to 4%. As of March 31, 1998 and December 31, 1997, the Company had \$43.1 million and \$41.7 million, respectively, of A&D Loans outstanding, none of which were 30 days or more past due. At March 31, 1998 and December 31, 1997, A&D Loans were secured by timeshare resort developments and rural land subdivisions in 20 states and one foreign territory and 18 states and one foreign territory, respectively. A&D Loans ranged in size from \$1,800 to \$8.1 million with an average principal balance of \$545,000 at March 31, 1998. A&D Loans ranged in size from

\$7,800 to \$7.3 million with an average principal balance of \$622,000 at December 31, 1997. The five largest A&D Loans represented 5.5% and 6.1%, of the Serviced Portfolio at March 31, 1998 and December 31, 1997, respectively.

(4) Other Loans

At March 31, 1998, Other Loans consisted primarily of consumer home equity loans, consumer construction loans and other secured commercial loans. Historically, the Company has made or acquired certain other secured and unsecured loans to identify additional lending opportunities or lines of business for possible future expansion as it did with VOI Loans and Hypothecation Loans. Subsequent to March 31, 1998, the Company purchased 232 builder construction loans totalling \$32.7 million, a portion of which had previously been collateral for the Hypothecation Loan in which the Company owned a participation interest as described above. The Company expects to purchase additional builder construction loans from finance companies from time to time in the future. The Company had \$8.4 million and \$8.5 million of such Other Loans, 0.62% and 1.97% of which were 90 days or more past due at March 31, 1998 and December 31, 1997, respectively. At March 31, 1998, Other Loans ranged in size from less than \$500 to \$158,000 with an average principal balance of \$16,000. At December 31, 1997, Other Loans ranged in size from less than \$500 to \$151,000 with an average principal balance of \$13,800. The five largest Other Loans represent 0.2% of the Serviced Portfolio at March 31, 1998 and December 31, 1997.

LOAN UNDERWRITING

The Company has established loan underwriting criteria and procedures designed to reduce credit losses on its Serviced Portfolio. The loan underwriting process includes reviewing each borrower's credit history. In addition, the Company's underwriting staff routinely conducts telephone interviews with a sample of borrowers. The primary focus of the Company's underwriting is to assess the likelihood that the borrower will repay the loan as agreed by examining the borrower's credit history through credit reporting bureaus.

The Company's loan policy is to purchase Land and VOI Loans from \$3,000 to \$50,000. On a case by case basis, the Company will also consider purchasing such loans in excess of \$50,000. As of March 31, 1998, the Company had 163 Land Loans exceeding \$50,000 representing 3.5% of the number of such loans in the Serviced Portfolio, for a total of \$11.9 million. There were no VOI Loans exceeding \$50,000 as of March 31, 1998. The Company will originate Hypothecation Loans up to \$20 million and A&D Loans up to \$10 million. From time to time the Company may have an opportunity to originate larger Hypothecation Loans or A&D Loans in which case the Company may exceed such amounts or may seek to participate such loans with other financial institutions. Construction Loans greater than \$200,000 and any other loans greater than \$100,000 must be approved by the Credit Committee which is comprised of the Chief Executive Officer, Executive Vice President, Chief Financial Officer and two Senior Vice Presidents.

COLLECTIONS AND DELINQUENCIES

Management believes that the relatively low delinquency rate for the Serviced Portfolio is attributable primarily to the application of its underwriting criteria, as well as to dealer guarantees and reserves withheld from dealers and developers. No assurance can be given that these delinquency rates can be maintained in the future.

Collection efforts are managed and delinquency information is analyzed at the Company's headquarters. Unless circumstances otherwise dictate, collection efforts are generally made by mail and telephone. Collection efforts begin when an account is four days past due, at which time the Company sends out a late notice. When an account is sixteen days past due the Company attempts to contact the borrower to determine the reason for the delinquency and to attempt to cause the account to become current. If the status of the account continues to deteriorate, an analysis of that delinquency is undertaken by the collection supervisor to determine the appropriate action. When the loan is 90 days past due in accordance with its original terms and it is determined that the amounts cannot be collected from the dealer or developer guarantees or reserves, the loan is generally placed on a nonaccrual status and the collection supervisor determines the action to be taken.

The determination of how to work out a delinquent loan is based upon many factors, including the borrower's payment history and the reason for the current inability to make timely payments. The Company has not restructured a material number of problem loans. When a guaranteed loan becomes 60 days (90 days in some cases) past due, in addition to the Company's collection procedures, the Company generally obtains the assistance of the dealer or developer in collecting the loan.

The Company extends a limited number of its loans for reasons the Company considers acceptable such as temporary loss of employment or serious illness. In order to qualify for a one to three month extension, the customer must make three timely payments without any intervention from the Company. For extensions of four to six months, the customer must make four to six timely payments, respectively, without any intervention from the Company. The Company will not extend a loan more than two times for an aggregate six months over the life of the loan. The Company has extended approximately 1.1% of its loans through March 31, 1998. The Company does not generally modify any other loan terms such as interest rates or payment amounts.

Regulations and practices regarding the rights of the mortgagor in default vary greatly from state to state. To the extent permitted by applicable law, the Company collects late charges and return-check fees and records these items as additional revenue. Only if a delinquency cannot otherwise be cured will the Company decide that foreclosure is the appropriate course of action. If the Company determines that purchasing a property securing a mortgage loan will minimize the loss associated with such defaulted loan, the Company may accept a deed in lieu of foreclosure, take legal action to collect on the underlying note or bid at the foreclosure sale for such property.

Serviced Portfolio

The following table shows the Company's delinquencies and delinquency rates, net of dealer/developer reserves and guarantees for the Serviced Portfolio:

	YEAR ENDED DECEMBER 31,					THREE MONTHS
	1993	1994	1995	1996	1997	ENDED MARCH 31, 1998
Serviced Portfolio.....	\$84,360,000	\$105,013,000	\$176,650,000	\$242,445,000	\$304,102,000	\$338,502,000
Delinquent loans(1).....	511,000	981,000	3,062,000	3,255,000	3,642,000	4,064,000
Delinquency as a Percentage of Serviced Portfolio.....	.61%	.93%	1.73%	1.34%	1.20%	1.20%

(1) Delinquent loans are those which are 30 days or more past due which are not covered by dealer/developer reserves or guarantees and not included in other real estate owned.

Land Loans

The following table shows the Company's delinquencies and delinquency rates, net of dealer/developer reserves and guarantees for Land Loans in the Serviced Portfolio:

	YEAR ENDED DECEMBER 31,					THREE MONTHS
	1993	1994	1995	1996	1997	ENDED MARCH 31, 1998
Land Loans in Serviced Portfolio.....	\$77,258,000	\$90,502,000	\$97,266,000	\$119,370,000	\$142,828,000	\$151,423,000
Delinquent Land Loans(1)....	511,000	981,000	1,059,000	1,920,000	2,453,000	2,662,000
Delinquency as a Percentage of Land Loans in Serviced Portfolio.....	.66%	1.08%	1.09%	1.61%	1.72%	1.76%

(1) Delinquent loans are those which are 30 days or more past due which are not covered by dealer/developer reserves or guarantees and not included in other real estate owned.

VOI Loans

The following table shows the Company's delinquencies and delinquency rates, net of dealer/developer reserves and guarantees for VOI Loans in the Serviced Portfolio:

	YEAR ENDED DECEMBER 31,					THREE MONTHS
	1993	1994	1995	1996	1997	ENDED MARCH 31, 1998
VOI Loans in Serviced Portfolio.....	\$1,434,000	\$2,851,000	\$46,700,000	\$43,284,000	\$29,232,000	\$26,288,000
Delinquent VOI Loans(1).....	--	--	1,958,000	1,316,000	739,000	724,000
Delinquency as a percentage of VOI Loans in Serviced Portfolio.....	--	--	4.19%	3.04%	2.53%	2.75%

(1) Delinquent loans are those which are 30 days or more past due which are not covered by dealer/developer reserves or guarantees and not included in other real estate owned.

Hypothecation, A&D and Other Loans

The Company did not have any delinquent Hypothecation Loans or A&D Loans for the years ended December 31, 1993 through December 31, 1997 or for the three months ended March 31, 1998. The Company did not have significant amounts of delinquent Other Loans for the years ended December 31, 1993 through December 31, 1996. At December 31, 1997, there were \$8.5 million of Other Loans of which \$450,000 or 5.3% were 30 days or more past due and not covered by dealer/developer reserves or guarantees and not included in other real estate owned. At March 31, 1998, there were \$8.4 million of Other Loans of which \$677,000 or 8.1% were 30 days or more past due and not covered by dealer/developer reserves or guarantees and not included in other real estate owned.

ALLOWANCE FOR LOAN LOSSES, NET CHARGE-OFFS AND DEALER RESERVES

The following is an analysis of the total allowances for all loan losses:

	YEAR ENDED DECEMBER 31,					THREE MONTHS
	1993	1994	1995	1996	1997	ENDED MARCH 31, 1998
Allowance, beginning of year.....	\$ 498,000	\$1,064,000	\$1,264,000	\$ 3,715,000	\$ 4,528,000	\$5,877,000
Provision for loan losses.....	620,000	559,000	890,000	1,954,000	1,400,000	350,000
Net charge-offs of uncollectible accounts.....	(493,000)	(359,000)	(946,000)	(1,965,000)	(2,010,000)	(528,000)
Allocation of purchase adjustment(1).....	439,000	--	2,507,000	824,000	1,959,000	465,000
Allowance, end of year.....	\$1,064,000	\$1,264,000	\$3,715,000	\$ 4,528,000	\$ 5,877,000	\$6,164,000

(1) Represents allocation of purchase adjustment related to purchase of certain nonguaranteed loans.

The following is an analysis of net charge-offs by major loan and collateral types experienced by the Company:

	YEAR ENDED DECEMBER 31,					THREE MONTHS
	1993	1994	1995	1996	1997	ENDED MARCH 31, 1998
Land Loans.....	\$493,000	\$359,000	\$546,000	\$ 669,000	\$ 986,000	\$305,000
VOI Loans.....	--	--	45,000	1,284,000	939,000	100,000
Hypothecation Loans.....	--	--	--	--	--	--
A&D Loans.....	--	--	352,000	(8,000)	(2,000)	--
Other Loans.....	--	--	3,000	20,000	87,000	123,000
Total net charge-offs.....	\$493,000	\$359,000	\$946,000	\$1,965,000	\$2,010,000	\$528,000
Net charge-offs as a percentage of the average Serviced Portfolio.....	.69%	.38%	.67%	.94%	.74%	.66%

As part of the Company's financing of Land Loans and VOI Loans, the Company enters into arrangements with most land dealers and resort developers whereby the Company establishes reserves to protect the Company from potential losses associated with such loans. The Company retains a portion of the amount payable to a dealer when purchasing a Land Loan or a VOI Loan and uses the amount retained to absorb loan losses. The Company negotiates the amount of the reserves with the land dealers and resort developers based upon various criteria, two of which are the financial strength of the land dealer or resort developer and the credit risk associated with the loans being purchased. Dealer reserves for Land Loans were \$6,420,000, \$7,555,000 and \$8,321,000 at December 31, 1995, 1996 and 1997, respectively, and \$8,458,000 at March 31, 1998. Developer reserves for VOI Loans amounted to \$3,224,000, \$3,072,000 and \$2,299,000 at December 31, 1995, 1996 and 1997, respectively, and \$2,134,000 at March 31, 1998. Most dealers and developers provide personal and, when relevant, corporate guarantees to further protect the Company from loss.

LOAN SERVICING AND SALES

The Company retains the right to service all the loans it purchases or originates. Servicing includes collecting payments from borrowers, remitting payments to investors who have purchased the loans, accounting for principal and interest, contacting delinquent borrowers and supervising foreclosure and bankruptcies in the event of unremedied defaults. Substantially all servicing results from the origination and purchase of loans by the Company, and the Company has not historically purchased loan servicing rights except in connection with the purchase of loans. Servicing rates generally approximate .5% to 2% of the principal balance of a loan.

In connection with the Company's continuing growth, the Company decided to subcontract its servicing rights in order to avoid incurring additional fixed overhead costs associated with such servicing. Accordingly, the Company subcontracted to an unaffiliated third party the servicing of VOI Loans in 1995 and the remaining loans in April 1996. The Company retains responsibility for servicing all loans as master servicer. The Company expects to resume certain customer service and collection functions during the third quarter of 1998.

In 1990, the Company began privately placing issues of pass-through certificates evidencing an undivided beneficial ownership interest in pools of mortgage loans which have been transferred to trusts. The principal and part of the interest payments on the loans transferred to the trust are collected by the Company, as the servicer of the loan pool, remitted to the trust for the benefit of the investors, and then distributed by the trust to the investors in the pass-through certificates.

As of March 31, 1998, the Company had sold or securitized a total of approximately \$366.7 million in loans. In certain of the Company's issues of pass-through certificates, credit enhancement was achieved by dividing the issue into a senior portion which was sold to the investors and a subordinated portion which was retained by the Company. In certain other of the Company's private placements, credit enhancement was achieved through cash collateral. If borrowers default in the payment of principal or interest on the loans underlying these issues of pass-through certificates, losses would be absorbed first by the subordinated portion

or cash collateral account retained by the Company and might, therefore, have to be charged against the allowance for loan losses to the extent dealer guarantees and reserves are not available.

The Company also has a \$125.0 million revolving line of credit and sale facility for its land loans as part of an asset backed commercial paper facility with a multi-seller commercial paper conduit. The facility expires in June 1998. The Company expects to extend the term of the facility to June 2001 prior to its expiration and to increase the amount of the facility to \$150.0 million subject to substantially the same terms and conditions. As of March 31, 1998, the outstanding balance of the sold or pledged loans securing this facility was \$116.6 million. The Company has an additional revolving line of credit and sale facility of \$25.0 million with another multi-seller commercial paper conduit. The facility expires in March 2000. As of March 31, 1998, the outstanding aggregate balance of the sold loans under the facility was \$13.3 million.

MARKETING AND ADVERTISING

The Company markets its program to rural land dealers and resort developers through brokers, referrals, dealer and developer solicitation, and targeted direct mail. The Company employs three marketing executives based in Denver, Colorado and six marketing executives based in Williamstown, Massachusetts. In the last 5 years the Company has closed loans with over 300 different dealers and developers.

Management believes that the Company benefits from name recognition as a result of its referral, advertising and other marketing efforts. Referrals have been the strongest source of new business for the Company and are generated in the states in which the Company operates by dealers, brokers, attorneys and financial institutions. Management and marketing representatives also conduct seminars for dealers and brokers and attend trade shows to improve awareness and understanding of the Company's programs.

REGULATION

The Company is licensed as a mortgage banker in 15 of the states in which it operates, and in those states its operations are subject to supervision by state authorities (typically state banking or consumer credit authorities). Expansion into other states may be dependent upon a finding of financial responsibility, character and fitness of the Company and various other matters. The Company is generally subject to state regulations, examination and reporting requirements, and licenses are revocable for cause. The Company is subject to state usury laws in all of the states in which it operates.

The consumer loans purchased or financed by the Company are subject to the Truth-in-Lending Act. The Truth-in-Lending Act contains disclosure requirements designed to provide consumers with uniform, understandable information with respect to the terms and conditions of loans and credit transactions in order to give them the ability to compare credit terms. Failure to comply with the requirements of the Truth-in-Lending Act may give rise to a limited right of rescission on the part of the borrower. The Company believes that its purchase or financing activities are in substantial compliance in all material respects with the Truth-in-Lending Act.

Origination of the loans also requires compliance with the Equal Credit Opportunity Act of 1974, as amended ("ECOA"), which prohibits creditors from discriminating against applicants on the basis of race, color, sex, age or marital status. Regulation B promulgated under ECOA restricts creditors from obtaining certain types of information from loan applicants. It also requires certain disclosures by the lender regarding consumer rights and requires lenders to advise applicants of the reasons for any credit denial. In instances where the applicant is denied credit or the interest rate charged increases as a result of information obtained from a consumer credit agency, another statute, the Fair Credit Reporting Act of 1970, as amended, requires the lenders to supply the applicant with a name and address of the reporting agency.

COMPETITION

The finance business is highly competitive, with competition occurring primarily on the basis of customer service and the term and interest rate of the loans. Traditional competitors in the finance business include commercial banks, credit unions, thrift institutions, industrial banks and other finance companies, many of

which have considerably greater financial, technical and marketing resources than the Company. There can be no assurance that the Company will not face increased competition from existing or new financial institutions and finance companies. In addition, the Company may enter new lines of business that may be highly competitive and may have competitors with greater financial resources than the Company.

The Company believes that it competes on the basis of providing competitive rates and prompt, efficient and complete service, and by emphasizing customer service on a timely basis to attract borrowers whose needs are not met by traditional financial institutions.

EMPLOYEES

As of March 31, 1998, the Company and its subsidiaries had 84 full-time equivalent employees. None of the Company's employees is covered by a collective bargaining agreement. The Company considers its relations with its employees to be good.

FACILITIES

The Company owns a leasehold interest in approximately 26,000 square feet of office space in Williamstown, Massachusetts, which is used as the Company's headquarters. The initial ten year lease term expires in May 2007 and is renewable at the Company's option for two additional ten year periods. The initial land lease provides for an annual rental of \$20,000. The Company also occupies an aggregate of approximately 5,100 square feet of office space in Lakewood, Colorado, pursuant to a lease expiring in January 2001, with an option to renew until 2004, providing for an annual rental of approximately \$56,000, including utilities and exterior maintenance expenses. A subsidiary of the Company occupies an aggregate of approximately 6,100 square feet of office space in Birmingham, Alabama, pursuant to a lease expiring in December 1999, providing for an annual rental of approximately \$60,000. The Company also owns, in Stamford, Vermont, an aggregate of approximately 13,000 square feet of office space, which is currently under contract for sale.

LEGAL PROCEEDINGS

The Company is not a party to any material legal proceedings.

MANAGEMENT

The following table sets forth the name, age and position with the Company of each person who is an executive officer or director of the Company as of April 30, 1998:

NAME ----	AGE ---	POSITION -----
Richard A. Stratton(1).....	47	Chief Executive Officer, President and Director
Heather A. Sica.....	35	Executive Vice President and Director
Ronald E. Rabidou.....	46	Chief Financial Officer and Treasurer
Wayne M. Greenholtz.....	57	Senior Vice President
John J. Malloy.....	40	Senior Vice President, General Counsel and Clerk
James H. Shippee.....	37	Senior Vice President
Michael A. Spadacino.....	36	Senior Vice President
Joseph S. Weingarten.....	32	Senior Vice President
James A. Yearwood.....	50	First Vice President
John A. Costa(1), (2), (3).....	42	Director
Gerald Segel(1), (2), (3).....	77	Director
James Westra.....	46	Director

(1) Member of Compensation Committee

(2) Member of Stock Option Committee

(3) Member of Audit Committee

EXECUTIVE OFFICERS

Richard A. Stratton, 47 years old, has been a director of the Company since 1988. Mr. Stratton was a cofounder of the Company and has been the Chief Executive Officer of the Company since 1996 and President of the Company since 1988. Prior to joining the Company, Mr. Stratton served as Vice President of Finance for Patten Corporation and Vice President of Marketing for Summit Software Technology, Inc. and held senior marketing and management positions with the Gillette Company and the American Appraisal Company in Boston, Massachusetts. Mr. Stratton is a graduate of The College of The Holy Cross.

Heather A. Sica, 35 years old, has been a director of the Company since 1995. Ms. Sica has been the Executive Vice President of the Company since 1991. She served as Chief Financial Officer of the Company from 1991 to 1995 and Treasurer from 1991 to April 1998. She served as a Vice President of the Company from 1989 to 1991. Prior to joining the Company, Ms. Sica was an associate with the Real Estate Group of General Electric Investment Corporation and a certified public accountant with KPMG Peat Marwick. Ms. Sica received her B.S. in Business Administration from the University of Vermont and her MBA from the Wharton School of the University of Pennsylvania.

Ronald E. Rabidou, 46 years old, has been Chief Financial Officer of the Company since May 1995 and Treasurer since April 1998. Prior to joining the Company, Mr. Rabidou was a certified public accountant with Ernst & Young LLP from 1987 to May 1995. Mr. Rabidou received his MBA and BA from the University of Massachusetts.

Wayne M. Greenholtz, 57 years old, has been a Senior Vice President of the Company since April 1995. Prior to joining the Company, Mr. Greenholtz was the Senior Vice President of Operations for Government Employees Financial Corporation, a subsidiary of GEICO Corporation, from 1989 to 1995. Mr. Greenholtz is a graduate of the University of Maryland.

John J. Malloy, 40 years old, has been a Senior Vice President and General Counsel of the Company since January 1998. Prior to joining the Company, Mr. Malloy was an attorney in private practice from 1986 to 1997 at Battle Fowler LLP, New York, New York, where he was a partner in the corporate department. Mr. Malloy received his BA from Carleton College and his JD from Rutgers University School of Law.

James Shippee, 37 years old, has been Senior Vice President of Mortgage Operations since 1989. Prior to joining the Company, Mr. Shippee was Vice President of Patten Financial Services from 1987 to 1989.

Michael A. Spadacino, 36 years old, has been a Senior Vice President of the Company since January 1994 after joining the Company in 1992 as a Vice President in charge of land portfolio acquisitions. Prior to joining the Company, Mr. Spadacino attended law school from 1989 to 1992 at the Albany Law School of Union University where he received a JD. Mr. Spadacino received a BBA in Accounting from St. Bonaventure University and MS in Taxation from Georgetown University and is also a CPA.

Joseph S. Weingarten, 32 years old, has been a Senior Vice President of the Company since 1997. Prior to joining the Company, Mr. Weingarten served from 1993 to 1997 in the Structured Finance Group of ING Capital, most recently as a Vice President, originating and managing structured lending and asset-backed securitization transactions, with an emphasis on specialty finance companies. Previously, he served as the Manager of Portfolio Administration for US West Financial Services, Inc., and as a CPA with Arthur Andersen & Co. Mr. Weingarten received his B.A. from New York University.

James A. Yearwood, 50 years old, has been a First Vice President of the Company since 1996 after joining the Company in 1992 as a Vice President in charge of vacation ownership receivable funding. Prior to joining the Company, Mr. Yearwood was a Vice President with Del-Val Capital Corporation from 1989 to 1991 where he specialized in vacation ownership receivable lending. Mr. Yearwood graduated from Southern Connecticut State University.

DIRECTORS

John A. Costa, 42 years old, has been a director of the Company since 1995. Mr. Costa has been at Cardholder Management Services, L.P., a credit card servicing business since 1993, serving first as Managing Director of Planning and Business Development, and presently as Senior Vice President. Mr. Costa served as a consultant to corporate clients from 1992 to 1995 in areas that include mergers and acquisitions, financial modeling, asset securitization and lending facility development. Previously, he served as Director of Consumer Finance with US West Financial Services, Inc. in 1992 and as Director of Structured Finance for Arsht & Company, Inc. from 1990 to 1992. Mr. Costa received his B.A. from New York University.

Gerald Segel, 77 years old, has been a Director of the Company since 1989. Prior to his retirement in May 1990, Mr. Segel was Chairman of Tucker Anthony Incorporated from January 1987 to May 1990. From 1983 to January 1987 he served as President of Tucker Anthony Incorporated. Mr. Segel is also a Director of Hologic, Inc., Vivid Technologies, Inc. and Boston Communications Group, Inc. Mr. Segel received his A.B. from Harvard College.

James Westra, 46 years old, has been a director of the Company since 1995. Mr. Westra is a stockholder of the law firm of Hutchins, Wheeler & Dittmar, A Professional Corporation, where he has practiced law since 1977. Mr. Westra serves as a Director of several companies, including Bertucci's, Inc. Mr. Westra graduated from Harvard College in 1973 and from Boston University Law School in 1977.

PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth information with respect to the beneficial ownership of shares of Common Stock of the Company, as of April 30, 1998, by all stockholders of the Company known to be beneficial owners of more than 5% of the outstanding Common Stock of the Company, by each director, each of the Selling Stockholders, each of the Company's executive officers whose total annual salary and bonus for 1997 exceeded \$100,000 and all directors and officers of the Company as a group:

NAME -----	BENEFICIAL OWNERSHIP PRIOR TO THE OFFERING(A) -----		NUMBER OF SHARES BEING OFFERED -----	BENEFICIAL OWNERSHIP AFTER THE OFFERING(A) -----	
	NUMBER OF SHARES -----	PERCENT -----		NUMBER OF SHARES -----	PERCENT -----
Arthur D. Charpentier..... 660 White Plains Road, Suite 400 Tarrytown, NY 10591	588,229	10.4%		588,229	8.8%
J.P. Morgan Inv. Mgt., Inc..... 522 Fifth Ave. New York, NY 10036	581,510	10.3%		581,510	8.7%
Richard A. Stratton..... Chief Executive Officer, President and Director	449,450(b)	7.6%	110,000	339,450	4.9%
Wellington Management Co..... 75 State Street Boston, MA 02109	416,802	7.4%		416,802	6.2%
Nicholas Company, Inc..... 700 North Water Street Milwaukee, WI 53202	413,287	7.3%		413,287	6.2%
Munder Capital Management..... 480 Pierce Street Birmingham, MI 48009	317,675	5.6%		317,675	4.7%
Citibank Global Asset Management..... 399 Park Ave. New York, NY 10043	300,967	5.3%		300,967	4.5%
Heather A. Sica..... Executive Vice President and Director	125,847(c)	2.2%	40,000(d)	85,847	1.3%
Michael A. Spadacino..... Senior Vice President	45,532(e)	*		45,532	*
Ronald E. Rabidou..... Chief Financial Officer and Treasurer	24,172(f)	*		24,172	*
Gerald Segel..... Director	21,316(g)	*		21,316	*
James Westra..... Director	7,915(h)	*		7,915	*
Joseph S. Weingarten..... Senior Vice President	7,500(i)	*		7,500	*

NAME	BENEFICIAL OWNERSHIP PRIOR TO THE OFFERING(A)		NUMBER OF SHARES BEING OFFERED	BENEFICIAL OWNERSHIP AFTER THE OFFERING(A)	
	NUMBER OF SHARES	PERCENT		NUMBER OF SHARES	PERCENT
John A. Costa..... Director	7,173(h)	*		7,173	*
All directors and executive officers as a group (12 persons).....	743,143(j)	12.0%	150,000	593,143	8.2%

* Less than one percent.

(a) Beneficial ownership is determined in accordance with rules of the Securities and Exchange Commission and includes general voting power and/or investment power with respect to securities. Shares of common stock subject to options and warrants currently exercisable or exercisable within 60 days of April 30, 1998 are deemed outstanding for computing the percentage of stock owned by a person holding such options but are not deemed outstanding for computing the percentage of stock owned by any other person. Except as otherwise specified below, the persons named in the table above have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.

(b) Includes 226,392 shares of Common Stock issuable upon exercise of options. Such options are exercisable within 60 days.

(c) Includes 123,532 shares of Common Stock issuable upon exercise of options. Such options are exercisable within 60 days.

(d) Shares to be issued upon the exercise of options.

(e) Includes 45,532 shares of Common Stock issuable upon exercise of options. Such options are exercisable within 60 days.

(f) Includes 24,172 shares of Common Stock issuable upon exercise of options. Such options are exercisable within 60 days.

(g) Includes 21,316 shares of Common Stock issuable upon exercise of options. Such options are exercisable within 60 days.

(h) Includes 6,180 shares of Common Stock issuable upon exercise of options. Such options are exercisable within 60 days.

(i) Includes 7,500 shares of Common Stock issuable upon exercise of options. Such options are exercisable within 60 days.

(j) In addition to the shares of Common Stock and options to purchase Common Stock deemed to be beneficially owned by the directors and officers, as set forth above, includes options to purchase Common Stock held by the following executive officers in the following amounts: James Shippee -- 31,862 shares; Wayne M. Greenholtz -- 11,769 shares and James Yearwood -- 10,607. Such options are exercisable currently or within 60 days.

DESCRIPTION OF CAPITAL STOCK

The authorized capital stock of the Company consists of 12,000,000 shares of Common Stock, par value \$.01 per share, of which 6,707,751 shares will be outstanding following the Offering, and 1,000,000 shares of Preferred Stock, par value \$.01 per share, none of which are outstanding.

COMMON STOCK

Holders of Common Stock are entitled to one vote for each share held on all matters submitted to a vote of the stockholders. Voting rights are not cumulative. Accordingly, holders of a majority of the voting power entitled to vote in any election of directors may elect all of the directors standing for election. Holders of Common Stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the Board of Directors out of funds legally available therefor, subject to any preferential dividend rights of, and sinking fund or redemption or purchase rights with respect to, outstanding shares of Preferred Stock. In the event of voluntary or involuntary liquidation, distribution, dissolution, or winding up of the Company, the holders of Common Stock shall be entitled to receive all of the remaining assets of the Company, ratably and in proportion to the shares of Common Stock held by them, available after distribution in full of preferential amounts, if any, to be distributed to holders of Preferred Stock. Holders of Common Stock have no preemptive, subscription or redemption rights. The outstanding shares of Common Stock are, and the shares offered by this offering will be, when issued and paid for, fully paid and nonassessable. The rights, preferences and privileges of holders of Common Stock are subject to, and may be adversely affected by, the rights of holders of shares of any series of Preferred Stock which the Company may designate and issue in the future.

PREFERRED STOCK

The authorized Preferred Stock of the Company consists of 1,000,000 shares, par value \$.01 per share, none of which will be issued and outstanding upon completion of this offering. Preferred Stock may be issued from time to time in one or more series. The Board of Directors, without further approval of the stockholders, is authorized to fix the dividend rights and terms, conversion rights, voting rights, redemption rights and terms, liquidation preferences, and any other rights, preferences, privileges and restrictions applicable to each series of Preferred Stock. The issuance of Preferred Stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, adversely affect the voting power of the holders of Common Stock, and, under certain circumstances, make it more difficult for a third party to gain control of the Company.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Stock is State Street Bank and Trust Company.

CERTAIN PROVISIONS AFFECTING STOCKHOLDERS

The Articles of Organization and By-laws of the Company include provisions which are intended by the Board of Directors to help assure fair and equitable treatment of the Company's stockholders in the event that a person or group should seek to gain control of the Company in the future. Such provisions, which are discussed below, may make a takeover attempt more difficult, whether by tender offer, proxy contest or otherwise. Accordingly, such provisions might be viewed as disadvantageous to stockholders inasmuch as they might diminish the likelihood that a potential acquiror would make an offer for the Company's stock (perhaps at an attractive premium over the market price), or impede a transaction favorable to the interests of the stockholders, or increase the difficulty of removing the incumbent Board of Directors and management, even if in a particular case removal would be beneficial to the stockholders.

The Company's Board of Directors is divided into three classes, each of which serves for three years, with one class being elected each year. Removal of a member of the Board of Directors with or without cause requires a majority vote of the Board of Directors or of the stockholders. A majority of the remaining directors then in office, though less than a quorum, or the stockholders are empowered to fill any vacancy on the Board of Directors. Advance notice of stockholder nominations and any other matter to be brought before a meeting

of stockholders is required to be given in writing to the Clerk of the Company within the time periods provided in the By-laws. A majority vote of the stockholders is required to alter, amend or repeal the foregoing provisions.

The Company is subject to Chapter 110D of the Massachusetts General Laws, which regulates so-called control share acquisitions. A "control share acquisition" is the acquisition of shares which, when added to shares already owned, would (but for the statute) entitle the acquiring person to vote at least 20% of a corporation's stock. Shares acquired in such a transaction would, under the statute, have no voting rights unless a majority of noninterested stockholders voted to grant such voting rights. In general, the person acquiring such shares, officers of the Company and those directors of the Company who are also employees, are not permitted to vote on whether such voting rights shall be granted. Pursuant to the statute, the Articles of Organization permit the Company, at its option, to redeem, without the concurrence of the person making the control share acquisition, shares acquired in such acquisition at the fair value of the shares if voting rights are not authorized by the stockholders. So long as Chapter 110D is applicable, stockholders may act with regard to a control share acquisition only subsequent to such an event. The stockholders, at a duly constituted meeting, may, by amendment to the By-laws or the Articles of Organization, provide that the provisions of Chapter 110D shall not apply to control share acquisitions of the Company.

The Company is also subject to Chapter 110F of the Massachusetts General Laws, which prohibits a business combination with a holder of 5% or more of the voting stock of a corporation (an "interested stockholder") for three years after the stockholder becomes an interested stockholder, unless the acquiror receives prior Board approval, acquires 90% or more of the outstanding shares (excluding stock controlled by management and certain ESOPs), or receives approval from two-thirds of the stockholders (other than the interested stockholder). The stockholders are permitted to amend a corporation's by-laws to opt out of this legislation effective twelve months after such stockholder vote.

The Massachusetts General Laws explicitly permit directors to adopt stockholder rights plans. The Company has not adopted any such plans. The Massachusetts General Laws also permit directors to consider the interests of employees, creditors, suppliers, customers, the community and other long-term economic and societal effects in determining the best interests of a corporation and its stockholders. In addition, Massachusetts law requires that, after a transfer of control (defined as acquisition of beneficial ownership of 50% or more of a corporation's voting securities), the acquiror must pay two weeks severance pay for each year of service to any employee whose employment is terminated (a) in the next two years, or (b) in the shorter of either the previous year or the period of time it took the acquiror to go from a 5% interest to the 50% level.

As permitted by the Massachusetts General Laws, the Company's Articles of Organization limit the personal liability of its directors to the Company or its stockholders for monetary damages for breach of fiduciary duty. The limitation applies only with respect to breaches of fiduciary duty constituting violations of the director's duty to act with such care as an ordinarily prudent person in a like position would use under similar circumstances. As a result, the Company's directors would ordinarily not be liable to stockholders for monetary damages even if they are guilty of negligence or gross negligence in exercising their business judgment, including the exercise of judgment with respect to a takeover or other acquisition proposal involving the Company. The limitation does not affect the ability of the Company or its stockholders to seek equitable remedies, such as an injunction or rescission, against a director for breach of his fiduciary duty and would not limit the liability under Federal securities law.

UNDERWRITING

Pursuant to the Underwriting Agreement, and subject to the terms and conditions thereof, the Underwriters named below have agreed, severally, to purchase from the Company and the Selling Stockholders the number of shares of Common Stock set forth below opposite their respective names.

NAME OF UNDERWRITER	NUMBER OF SHARES OF COMMON STOCK
Tucker Anthony Incorporated.....	
McDonald & Company Securities, Inc.....	
J.C. Bradford & Co.....	
Total.....	1,150,000 =====

In the Underwriting Agreement, the Underwriters have agreed, subject to the terms and conditions therein set forth, to purchase all the shares of Common Stock offered hereby if any of such shares are purchased.

The Company and the Selling Stockholders have been advised by the Underwriters that the Underwriters propose initially to offer the shares of Common Stock to the public at the offering price set forth on the cover page of this Prospectus and to certain dealers at such price less a concession not in excess of \$ per share. The Underwriters may allow and such dealers may reallow a concession not in excess of \$ per share to certain other dealers. After the initial public offering, the public offering price and such concessions may be changed. The Underwriters have informed the Company and the Selling Stockholders that they do not intend to confirm sales to accounts over which they exercise discretionary authority.

The offering of the shares of Common Stock is made for delivery when, as and if accepted by the Underwriters and subject to prior sale and to withdrawal, cancellation or modification of the offer without notice. The Underwriters reserve the right to reject any order for the purchase of the shares.

The Company has granted to the Underwriters an option, exercisable not later than 30 days from the date of the Prospectus, to purchase up to an aggregate of 172,500 additional shares of Common Stock to cover over-allotments. To the extent the Underwriters exercise this option, each of the Underwriters will have a firm commitment to purchase approximately the same percentage thereof which the number of shares of Common Stock to be purchased by it shown in the table above bears to 1,150,000, and the Company will be obligated, pursuant to the option, to sell such shares to the Underwriters. The Underwriters may exercise such option only to cover over-allotments made in connection with the sale of the 1,150,000 shares of Common Stock offered hereby. If purchased, the Underwriters will sell these additional shares on the same terms as those on which the 1,150,000 shares are being offered.

The executive officers and directors of the Company, beneficially owning an aggregate of approximately 593,143 shares of Common Stock have agreed that they will not, without the prior written consent of the Underwriters, sell, transfer, assign or otherwise dispose of any of the Common Stock or options, warrants or rights to acquire Common Stock owned by them prior to the expiration of 120 days from the date of this Prospectus.

The Underwriting Agreement provides that the Company and the Selling Stockholders will indemnify the Underwriters, and controlling persons, if any, against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or will contribute to payments which the Underwriters or any such controlling persons may be required to make in respect thereof.

Pursuant to regulations promulgated by the Securities and Exchange Commission (the "Commission"), market makers in the Common Stock who are Underwriters or prospective underwriters ("passive market makers") may, subject to certain limitations, make bids for or purchases of shares of Common Stock until the earlier of the time of commencement (the "Commencement Date") of offers or sales of the Common Stock contemplated by this Prospectus or the time at which a stabilizing bid for such shares is made. In general, on and after the date two days prior to the Commencement Date (1) each such market maker's net daily

purchases of the Common Stock may not exceed 30% of the average daily trading volume in such stock for the two full consecutive calendar months immediately preceding the filing date of the Registration Statement of which this Prospectus forms a part, (2) such market maker may not effect transactions in, or display bids for, the Common Stock at a price that exceeds the highest bid for the Common Stock by persons who are not passive market makers and (3) bids made by passive market makers must be identified as such.

LEGAL MATTERS

Hutchins, Wheeler & Dittmar, A Professional Corporation, 101 Federal Street, Boston, Massachusetts, will render an opinion on the legality of the shares of Common Stock being offered hereby. Bass, Berry & Sims PLC, 2700 First American Center, Nashville, Tennessee, will pass upon certain legal matters for the Underwriters. James Westra, a shareholder of Hutchins, Wheeler & Dittmar, is a Director of the Company. Mr. Westra owns 1,735 shares of the Company's Common Stock and has options to acquire another 7,512 shares.

EXPERTS

The consolidated financial statements of Litchfield Financial Corporation incorporated by reference in Litchfield Financial Corporation's Annual Report (Form 10-K) for the year ended December 31, 1997, have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon incorporated by reference therein and incorporated herein by reference. Such financial statements are, and audited financial statements to be included in subsequently filed documents will be, incorporated herein in reliance upon the reports of Ernst & Young LLP pertaining to such financial statements (to the extent covered by consents filed with the Securities and Exchange Commission) given upon the authority of such firm as experts in accounting and auditing.

ADDITIONAL INFORMATION

The Company has filed with the Commission a registration statement on Form S-3 (herein, with all amendments and exhibits thereto, referred to as the "Registration Statement") under the Securities Act of 1933, as amended (the "Securities Act"), with respect to the shares of Common Stock offered hereby. This Prospectus, which is part of the Registration Statement, does not contain all of the information set forth in the Registration Statement or the exhibits and schedules thereto, certain portions having been omitted pursuant to the rules and regulations of the Commission. Statements made in this Prospectus as to the contents of any contract or other document are not necessarily complete; with respect to each such contract or other document filed with the Commission as an exhibit to the Registration Statement, or incorporated by reference to exhibits previously filed, reference is made to the exhibit for a more complete description of the matter involved, and each such statement shall be deemed qualified in its entirety by such reference.

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and in accordance therewith files reports, proxy statements and other information with the Commission. Such reports, proxy statements and other information can be inspected and copied at the Public Reference Section of the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the following Regional Offices of the Commission: New York Regional Office, Seven World Trade Center, New York, New York 10048 and Chicago Regional Office, Northwestern Atrium Center, 500 West Madison Street, Room 3190, Chicago, Illinois 60661. Copies of such material can also be obtained at prescribed rates by writing to the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. The Commission maintains a World Wide Web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission at <http://www.sec.gov>. The Company's Common Stock is listed on The Nasdaq Stock Market's National Market, and such reports, proxy statements and other information can also be inspected at the Offices of Nasdaq Operations, 1735 K Street, N.W., Washington D.C. 20006.

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NO DEALER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR THE UNDERWRITERS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY TO ANY PERSON IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION WOULD BE UNLAWFUL OR TO ANY PERSON TO WHOM IT IS UNLAWFUL. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY OFFER OR SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY OR THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF.

1,150,000 SHARES

**[LITCHFIELD FINANCIAL CORP. LOGO]
COMMON STOCK**

**PROSPECTUS
MAY, 1998
TUCKER ANTHONY
INCORPORATED**

**MCDONALD & COMPANY
SECURITIES, INC.**

J.C. BRADFORD & CO.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION*

The expenses in connection with the issuance and distribution of the securities being registered hereby are estimated as follows:

Registration fee under Securities Act.....	\$ 8,974
NASD filing fee.....	\$ 3,542
Nasdaq fee.....	\$ 17,500
Legal fees and expenses.....	\$100,000
Accounting fees and expenses.....	\$ 35,000
Printing and engraving.....	\$ 90,000
Miscellaneous.....	\$ 9,984

Total.....	\$265,000
	=====

* All amounts are estimated.

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 67 of Chapter 156B of the General Laws of the Commonwealth of Massachusetts provides as follows:

"Section 67. Indemnification of directors, officers, employees and other agents of a corporation, and persons who serve at its request as directors, officers, employees or other agents of another organization, or who serve at its request in any capacity with respect to any employee benefit plan, may be provided by it to whatever extent shall be specified in or authorized by (i) the articles of organization or (ii) a by-law adopted by the stockholders or (iii) a vote adopted by the holders of a majority of the shares of stock entitled to vote on the election of directors. Except as the articles of organization or by-laws otherwise require, indemnification of any persons referred to in the preceding sentence who are not directors of the corporation may be provided by it to the extent authorized by the directors. Such indemnification may include payment by the corporation of expenses incurred in defending a civil or criminal action or proceeding in advance of the final disposition of such action or proceeding, upon receipt of an undertaking by the person indemnified to repay such payment if he shall be adjudicated to be not entitled to indemnification under this section which undertaking may be accepted without reference to the financial ability of such person to make repayment. Any such indemnification may be provided although the person to be indemnified is no longer an officer, director, employee or agent of the corporation or of such other organization or no longer serves with respect to any such employee benefit plan.

No indemnification shall be provided for any person with respect to any matter as to which he shall have been adjudicated in any proceeding not to have acted in good faith in the reasonable belief that his action was in the best interest of the corporation or to the extent that such matter relates to service with respect to an employee benefit plan, in the best interests of the participants or beneficiaries of such employee benefit plan.

The absence of any express provision for indemnification shall not limit any right of indemnification existing independently of this section.

A corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or other agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or other agent of another organization or with respect to any employee benefit plan, against any liability incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability."

Article 7 of the Amended and Restated By-Laws of the Company provides that:

Each director and officer (and his heirs and personal representatives) shall be indemnified by the Company against any Expenses incurred by him in connection with any action, suit or proceeding, civil or criminal, brought or threatened in or before any court, tribunal, administrative or legislative body or agency in which he is involved as a result of his serving or having served as a director or officer, except as limited by law or with respect to a proceeding as to which it shall have been adjudicated that he did not act in good faith in the reasonable belief that his action was in the best interests of the Company. "Expense" means any fine or penalty, and any liability fixed by a judgment, order, decree or award in such a proceeding and any professional fees and other disbursements reasonably incurred in connection with such a proceeding.

Article Sixth of the Restated Articles of Organization of the Company provides that:

No Director of the Corporation shall be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a Director notwithstanding any statutory provision or other law imposing such liability, except for liability of a Director (i) for any breach of the Director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section sixty-one or sixty-two of Chapter 156B of the Massachusetts General Laws, or (iv) for any transaction from which the Director derived an improper personal benefit.

The directors and officers of the Company are insured against liabilities which they incur in their capacity as such under policies of insurance carried by the Company.

ITEM 16. EXHIBITS

NUMBER -----	DESCRIPTION OF EXHIBIT -----
1.1	Form of Underwriting Agreement.
4.1	Specimen Common Stock Certificate.
5.1	Opinion of Hutchins, Wheeler & Dittmar, A Professional Corporation.
23.1	Consent of Independent Auditors.
23.2	Consent of Hutchins, Wheeler & Dittmar, A Professional Corporation (included in Exhibit 5.1).
24.1	Power of Attorney (included in signature page).

ITEM 17. UNDERTAKINGS

The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, as amended (the "Securities Act"), each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant further undertakes that:

- (1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.
- (2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to the initial bona fide offering thereof.

The undersigned registrant further undertakes to deliver or cause to be delivered with the prospectus, to each person to whom the prospectus is sent or given, the latest annual report to security holders that is incorporated by reference in the prospectus and furnished pursuant to and meeting the requirements of Rule 14a-3 or Rule 14c-3 under the Securities Exchange Act of 1934; and, where interim financial information required to be represented by Article 3 of Regulation S-X are not set forth in the prospectus, to deliver, or cause to be delivered to each person to whom the prospectus is sent or given, the latest quarterly report that is specifically incorporated by reference in the prospectus to provide such interim financial information.

SIGNATURES

Pursuant to the requirements of the Securities Act, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereto duly authorized, in the City of Boston, Commonwealth of Massachusetts, on the 21st day of May, 1998.

LITCHFIELD FINANCIAL CORPORATION

By: /s/ RICHARD A. STRATTON

*Richard A. Stratton, President,
Chief Executive Officer and Director*

POWER OF ATTORNEY

Each person whose individual signature appears below hereby authorizes Richard A. Stratton and Heather A. Sica, and each of them, with full power of substitution and full power to act without the other, his or her true and lawful attorney-in-fact and agent in his or her name, place and stead, to execute in the name and on behalf of each person, individually and in each capacity stated below, and to file any and all amendments to this Registration Statement, including any and all post-effective amendments, and any related Rule 462(b) Registration Statement and any amendments thereto.

Pursuant to the requirements of the Securities Act, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

SIGNATURE -----	TITLE -----	DATE ----
/s/ RICHARD A. STRATTON ----- Richard A. Stratton	President, Chief Executive Officer, and Director	May 21, 1998
/s/ HEATHER A. SICA ----- Heather A. Sica	Executive Vice President and Director	May 21, 1998
/s/ RONALD E. RABIDOU ----- Ronald E. Rabidou	Chief Financial Officer and Treasurer	May 21, 1998
/s/ JOHN A. COSTA ----- John A. Costa	Director	May 21, 1998
/s/ GERALD SEGEL ----- Gerald Segel	Director	May 21, 1998
/s/ JAMES WESTRA ----- James Westra	Director	May 21, 1998

EXHIBIT INDEX

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EXHIBIT 1.1

LITCHFIELD FINANCIAL CORPORATION

**1,150,000 SHARES OF COMMON STOCK
PAR VALUE \$.01 PER SHARE**

UNDERWRITING AGREEMENT

_____, 1998

**TUCKER ANTHONY INCORPORATED
McDONALD & COMPANY SECURITIES, INC.
J.C. BRADFORD & CO.**
c/o Tucker Anthony Incorporated
One Beacon Street
Boston, Massachusetts 02108

Ladies and Gentlemen:

Litchfield Financial Corporation, a Massachusetts corporation (the "Company") proposes to sell to the several underwriters named in Schedule I hereto (the "Underwriters"), and certain shareholders of the Company (the "Selling Stockholders") named in Schedule II hereto severally propose to sell to the several Underwriters, an aggregate of 1,150,000 shares of the Company's Common Stock, par value \$.01 per share (the "Firm Shares"), of which 1,000,000 shares are to be issued and sold by the Company and 150,000 shares are to be sold by the Selling Stockholders, each Selling Stockholder selling the amount set forth opposite such Selling Stockholder's name in Schedule II hereto. The respective amounts of the Firm Shares to be so purchased by the Underwriters are set forth opposite their names in Schedule I hereto. In addition, the Company proposes to grant to the Underwriters an option to purchase up to an aggregate of 172,500 additional shares of the Company's Common Stock solely for the purpose of covering over-allotments, if any (the "Option Shares"). The Firm Shares and the Option Shares purchased pursuant to this Agreement are hereinafter collectively referred to as the "Shares."

1. Representations and Warranties of the Company. The Company represents and warrants to, and agrees with, each of the Underwriters that:
 - a. The Company has filed with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Securities Act"), a registration statement on Form S-3 (Registration No. 333-_____ including the related preliminary prospectus relating to the Shares, has filed such amendments thereto as may have been required as of the date hereof,

and will file such additional amendments as may hereafter be required. Copies of such registration statement and any amendments, including any post-effective amendments, and all forms of the related prospectuses contained therein and any supplements thereto, have been delivered to the Underwriters. Such registration statement, including the prospectus, Part II, all financial schedules and exhibits thereto, and all information deemed to be a part of such Registration Statement pursuant to Rule 430A under the Securities Act, at the time when it shall become effective, together with any registration statement filed by the Company pursuant to Rule 462(b) of the Securities Act, is herein referred to as the "Registration Statement," and the prospectus included as part of the Registration Statement on file with the Commission that discloses all the information that was omitted from the prospectus on the effective date pursuant to Rule 430A of the Rules and Regulations (as defined below) and in the form filed pursuant to Rule 424(b) under the Securities Act is herein referred to as the "Final Prospectus." The prospectus included as part of the Registration Statement on the date when the Registration Statement became effective is referred to herein as the "Effective Prospectus." Any prospectus included in the Registration Statement and in any amendment thereto prior to the effective date of the Registration Statement is referred to herein as a "Preliminary Prospectus." For purposes of this Agreement, "Rules and Regulations" mean the rules and regulations promulgated by the Commission under either the Securities Act or the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as applicable.

b. The Commission has not issued any order preventing or suspending the use of any Preliminary Prospectus, and each Preliminary Prospectus, at the time of filing thereof, complied with the requirements of the Securities Act and the Rules and Regulations, and did not include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; except that the foregoing does not apply to statements or omissions made in reliance upon and in conformity with written information furnished to the Company by any Underwriter specifically for use therein (it being understood that the only information so provided is the information included in the last two paragraphs on the cover page and in the first, third and fourth paragraphs under the caption "Underwriting" in the Final Prospectus). When the Registration Statement becomes effective and at all times subsequent thereto up to and including the First Closing Date (as hereinafter defined), (i) the Registration Statement, the Effective Prospectus and Final Prospectus and any amendments or supplements thereto will contain all statements which are required to be stated therein in accordance with the Securities Act, the Exchange Act and the Rules and Regulations and will comply with the requirements of the Securities Act, the Exchange Act and the Rules and Regulations, and (ii)

neither the Registration Statement, the Effective Prospectus nor the Final Prospectus nor any amendment or supplement thereto will include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they are made, not misleading; except that the foregoing does not apply to statements or omissions made in reliance upon and in conformity with written information furnished to the Company by any Underwriter specifically for use therein (it being understood that the only information so provided is the information included in the last paragraph on the cover page and in the first, third and fourth paragraphs under the caption "Underwriting" in the Final Prospectus).

c. The Company and each subsidiary of the Company (as used herein, the term "subsidiary" includes any corporation, joint venture or partnership in which the Company or any subsidiary of the Company has an ownership interest) is duly organized and validly existing and in good standing under the laws of the respective jurisdictions of their organization or incorporation, as the case may be, with full power and authority (corporate, partnership and other, as the case may be) to own their properties and conduct their businesses as now conducted and are duly qualified or authorized to do business and are in good standing in all jurisdictions wherein the nature of their business or the character of property owned or leased may require them to be qualified or authorized to do business, except for jurisdictions in which the failure to so qualify would not have a material adverse effect on the Company and its subsidiaries taken as a whole. The Company and its subsidiaries hold all licenses, consents and approvals, and have satisfied all eligibility and other similar requirements imposed by federal and state regulatory bodies, administrative agencies or other governmental bodies, agencies or officials, in each case as material to the conduct of the respective businesses in which they are engaged in the Effective Prospectus and the Final Prospectus.

d. The outstanding stock of each of the Company's corporate subsidiaries is duly authorized, validly issued, fully paid and nonassessable. All of the outstanding stock of each of the Company's corporate subsidiaries owned beneficially and of record by the Company is owned clear of any lien, encumbrance, pledge, equity or claim of any kind. Neither the Company nor any of its subsidiaries is a partner or joint venturer in any partnership or joint venture.

e. The capitalization of the Company as of March 31, 1998 is as set forth under the caption "Capitalization" in the Effective Prospectus and the Final Prospectus, and the Company's capital stock conforms to the description thereof contained under the caption "Description of Capital Stock" in the Effective Prospectus and the Final Prospectus. All the issued shares of capital stock of the Company (including the Shares to be sold by the Selling

Shareholders) have been duly authorized and validly issued, are fully paid and nonassessable. None of the issued shares of capital stock of the Company (including the Shares to be sold by the Selling Shareholders) have been issued in violation of any preemptive or similar rights. The Shares to be sold by the Company have been duly and validly authorized and, upon issuance and delivery and payment therefor in the manner herein described, will be validly issued, fully paid and nonassessable. Upon the effective date of the offering of the Shares, there will be no preemptive rights or other rights to subscribe for or to purchase, or any restriction upon the transfer of, any shares of Common Stock pursuant to the Company's Articles of Organization, bylaws or other governing documents or any agreement or other instrument to which the Company is a party or by which it may be bound except as described in the Effective Prospectus and the Final Prospectus and except for restrictions on transfer imposed under applicable securities laws. Neither the filing of the Registration Statement nor the offer or sale of the Shares as contemplated by this Agreement gives rise to any rights, other than those which have been waived or satisfied, for or relating to the registration of any shares of Common Stock or any other securities of the Company. The Underwriters will receive good and marketable title to the Shares to be sold by the Company to be issued and delivered hereunder, free and clear of all liens, encumbrances, claims, security interests, restrictions, stockholders' agreements and voting trusts whatsoever.

f. All offers and sales of the Company's securities prior to the date hereof were at all relevant times duly registered or exempt from the registration requirements of the Securities Act and were duly registered or the subject of an available exemption from the registration requirements of the applicable state securities or Blue Sky laws, or if not registered in compliance with the applicable federal and state securities laws, any actions arising from such failure to register any such securities are barred by applicable statute of limitations.

g. The Company has full legal right, power and authority to enter into this Agreement and the Custody Agreement and Power of Attorney (the "Custody Agreement and Power of Attorney") signed by each Selling Stockholder and the Company, as Custodian, relating to the deposit of the Shares to be sold by such Selling Stockholder and to appointing a certain individual as such Selling Stockholder's attorney-in-fact to the extent set forth therein, relating to the transactions contemplated thereby and by the Registration Statement, and to sell and deliver the Shares to be sold by the Company to the Underwriters as provided herein, and this Agreement and the Custody Agreement and Power of Attorney have been duly authorized, executed and delivered by the Company and constitute valid and binding agreements of the Company enforceable against the Company in accordance with their terms. No consent, approval, authorization or order of any court or governmental

agency or body or third party is required for the performance of this Agreement and the Custody Agreement and Power of Attorney by the Company or the consummation by the Company of the transactions contemplated hereby or thereby, except such as have been obtained and such as may be required by the National Association of Securities Dealers, Inc. ("NASD") or under the Securities Act, or state securities or Blue Sky laws in connection with the purchase and distribution of the Shares by the Underwriters. The issue and sale of the Shares to be sold by the Company, the Company's performance of this Agreement and the consummation of the transactions contemplated hereby will not result in a breach or violation of, or conflict with, any of the terms and provisions of, or constitute a material default by the Company or any of its subsidiaries under, any indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which the Company or any of its subsidiaries is a party or to which the Company or any of its subsidiaries or any of their respective properties is subject, the Articles of Organization or bylaws of the Company or any of its subsidiaries or any statute or any judgment, decree, order, rule or regulation of any court or governmental agency or body applicable to the Company, or any subsidiary or any of their respective properties. Neither the Company nor any subsidiary is (i) in violation of its Articles of Organization, (ii) in violation of any partnership agreement or joint venture agreement, as the case may be, (iii) in violation of its bylaws or any law, administrative rule or regulation or arbitrators' or administrative or court decree, judgment or order or (iv) in violation of or default (there being no existing state of facts which with notice or lapse of time or both would constitute a default) in the performance or observance of any obligation, agreement, covenant or condition contained in any contract, indenture, deed of trust, mortgage, loan agreement, note, lease, agreement or other instrument or permit to which it is a party or by which it or any of its properties is or may be bound.

h. The consolidated financial statements and the related notes of the Company, incorporated by reference in the Registration Statement, the Effective Prospectus and the Final Prospectus present fairly the financial position, results of operations and changes in financial position and cash flow of the Company and its subsidiaries, at the dates and for the periods to which they relate and have been prepared in accordance with generally accepted accounting principles applied on a consistent basis throughout the periods indicated. The other financial statements and schedules incorporated by reference in or as schedules to the Registration Statement conform to the requirements of the Securities Act, the Exchange Act and the Rules and Regulations and present fairly the information presented therein for the periods shown. The financial and statistical data set forth in the Effective Prospectus and the Final Prospectus under the captions "Prospectus Summary," "Use of Proceeds," "Capitalization," "Selected Consolidated

Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and "Principal and Selling Stockholders" fairly presents the information set forth therein on the basis stated in the Effective Prospectus and the Final Prospectus. Ernst & Young LLP, whose reports appear in the Effective Prospectus and the Final Prospectus, are independent accountants as required by the Securities Act and the Rules and Regulations.

i. Subsequent to March 31, 1998, neither the Company nor any subsidiary has sustained any material loss or interference with its business or properties from fire, flood, hurricane, earthquake, accident or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, which is not disclosed in the Effective Prospectus and the Final Prospectus; and subsequent to the respective dates as of which information is given in the Registration Statement, the Effective Prospectus and the Final Prospectus, (i) neither the Company nor any of its subsidiaries has incurred any material liabilities or obligations, direct or contingent, or entered into any material transactions not in the ordinary course of business, and (ii) there has not been any change in the capital stock, partnership interests, joint venture interests, long-term debt or obligations under capital leases of the Company and its subsidiaries, or any issuance of options, warrants or rights to purchase the capital stock of the Company, or any adverse change, or any development involving a prospective adverse change in the management, business, prospects, financial position, net worth or results of operations of the Company or its subsidiaries, taken as a whole, except in each case as described in or contemplated by the Effective Prospectus and the Final Prospectus.

j. Except as described in the Effective Prospectus and the Final Prospectus, there is not pending, or to the knowledge of the Company threatened, any action, suit, proceeding, inquiry or investigation, to which the Company, any of its subsidiaries or any of their officers or directors is a party, or to which the property of the Company or any subsidiary is subject, before or brought by any court or governmental agency or body, wherein an unfavorable decision, ruling or finding could prevent or materially hinder the consummation of this Agreement or result in a material adverse change in the business condition (financial or other), prospects, financial position, net worth or results of operations of the Company or its subsidiaries.

k. There are no contracts or other documents required by the Securities Act or by the Rules and Regulations to be described in the Registration Statement, the Effective Prospectus or the Final Prospectus or to be filed as exhibits to the Registration Statement which have not been described or filed as required.

l. Except as described in the Effective Prospectus and the Final Prospectus, the Company and each of its subsidiaries have good and marketable title to all real and material personal property owned by them, free and clear of all liens, charges, encumbrances or defects except those reflected in the financial statements hereinabove described. The real and personal property and buildings referred to in the Effective Prospectus and the Final Prospectus which are leased from others by the Company are held under valid, subsisting and enforceable leases. The Company or its subsidiaries owns or leases all such properties as are necessary to its operations as now conducted.

m. The Company's system of internal accounting controls taken as a whole is sufficient to meet the broad objectives of internal accounting control insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the Company's financial statements; and, except as disclosed in the Effective Prospectus and the Final Prospectus, neither the Company nor any of its subsidiaries nor any employee or agent of the Company or any subsidiary has made any payment of funds of the Company or any subsidiary or received or retained any funds in violation of any law, rule or regulation.

n. The Company and its subsidiaries have filed all federal, state and local income, excise and franchise tax returns required to be filed through the date hereof and have paid all taxes shown as due therefrom; and there is no tax deficiency that has been, nor does the Company or any subsidiary have knowledge of any tax deficiency which is likely to be, asserted against the Company or its subsidiaries, which if determined adversely could materially and adversely affect the earnings, assets, affairs, business prospects or condition (financial or other) of the Company or its subsidiaries.

o. The Company and its subsidiaries operate their respective businesses in conformity in all material respects with all applicable statutes, common laws, ordinances, decrees, orders, rules and regulations of governmental bodies. The Company and its subsidiaries have all licenses, approvals or consents to operate their respective businesses in all locations in which such businesses are currently being operated, and the Company and its subsidiaries are not aware of any existing or imminent matter which may adversely impact their operations or business prospects other than as specifically disclosed in the Effective Prospectus and the Final Prospectus. The Company has not engaged in any activity, whether alone or in concert with one of its customers, creating the potential for exposure to material civil or criminal monetary liability or other material sanctions under federal or state laws regulating consumer credit transactions, debt collection practices or land sales practices.

p. Neither the Company nor any of its subsidiaries have failed to file with the applicable regulatory authorities any statement, report, information or form required by any applicable law, regulation or order where the failure to file the same would have a material adverse effect on the Company and its subsidiaries, taken as a whole; all such filings or submissions were in material compliance with applicable laws when filed and no deficiencies have been asserted by any regulatory commission, agency or authority with respect to such filings or submissions. Neither the Company nor any of its subsidiaries have failed to maintain in full force and effect any license or permit necessary or proper for the conduct of its business, or received any notification that any revocation or limitation thereof is threatened or pending, and, except as disclosed in the Effective Prospectus and the Final Prospectus, there is not pending any change under any law, regulation, license or permit which could materially adversely affect its business, operations, property or business prospects. Neither the Company nor any of its subsidiaries have received any notice of violation of or been threatened with a charge of violating and are not under investigation with respect to a possible violation of any provision of any law, regulation or order.

q. No labor dispute exists with the Company's employees or with employees of its subsidiaries or is imminent which could materially adversely affect the Company or any of its subsidiaries. The Company is not aware of any existing or imminent labor disturbance by its employees or by any employees of its subsidiaries which could be expected to materially adversely effect the condition (financial or otherwise), results of operations, properties, affairs, management, business affairs or business prospects of the Company or any of its subsidiaries.

r. Except as disclosed in the Effective Prospectus and the Final Prospectus, the Company and its subsidiaries own or possess, or can acquire on reasonable terms, the licenses, copyrights, trademarks, service marks and trade names presently employed by them in connection with the businesses now operated by them, and neither the Company nor any of its subsidiaries have received any notice of infringement of or conflict with asserted rights of others with respect to any of the foregoing which, alone or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would result in any material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company or its subsidiaries.

s. Neither the Company nor any of its subsidiaries, nor any of the directors, officers, employees or agents of the Company and its subsidiaries have taken and will not take, directly or indirectly, any action designed to cause or result in, or which has constituted or which might be expected to constitute, stabilization or manipulation of the price of the Common Stock. The

Company acknowledges that the Underwriters may engage in passive market making transactions in the Shares on The Nasdaq Stock Market's National Market (the "Nasdaq National Market").

t. The Company and each of its subsidiaries are insured by insurers of reorganized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which they are engaged; and the Company has no reason to believe that it or any of its subsidiaries will not be able to renew their existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue their respective businesses at a comparable cost.

u. The Company is not an "investment company" within the meaning of such term under the Investment Company Act of 1940 and the rules and regulations of the Commission thereunder.

v. The Company is in compliance in all material respects with all presently applicable provisions of the Employee Retirement Income Security Act of 1974, as amended, including the regulations and published interpretations thereunder ("ERISA"); no "reportable event" (as defined in ERISA) has occurred with respect to any "pension plan" (as defined in ERISA) for which the Company would have any liability; the Company has not incurred and does not expect to incur liability under (i) Title IV of ERISA with respect to termination of, or withdrawal from, any "pension plan" or (ii) Sections 412 or 4971 of the Internal Revenue Code of 1986, as amended, including the regulations and published interpretations thereunder (the "Code"), and each "pension plan" for which the Company would have any liability that is intended to be qualified under Section 401(a) of the Code is so qualified in all material respects and nothing has occurred, whether by action or by failure to act, which would cause the loss of such qualification.

w. The Shares have been approved for listing on the Nasdaq National Market subject to notice of issuance.

2. Representations and Warranties of the Selling Stockholders. Each Selling Stockholder represents and warrants to each Underwriter and agrees as follows:

a. The Selling Stockholder has valid and marketable title to the Shares to be sold by the Selling Stockholder, free and clear of any liens, encumbrances, equities and claims (other than as imposed by the Securities Act or this Agreement), and full right, power and authority to effect the sale and delivery of such Shares; and upon the delivery of and payment for the Shares to be sold by the Selling Stockholder pursuant to this Agreement and the Custody Agreement and Power of Attorney, valid and marketable title

thereto, free and clear of any stockholders' agreements, voting trusts, liens, encumbrances, equities and claims, will be transferred to the Underwriters.

b. The Selling Stockholder agrees that the shares of Common Stock represented by the certificates are subject to the interest of the Underwriters hereunder, and that the obligations of the Selling Stockholder hereunder shall not be terminated except as provided in this Agreement.

c. The Selling Stockholder has duly executed and delivered this Agreement and the Custody Agreement and Power of Attorney; this Agreement and the Custody Agreement and Power of Attorney constitute legal valid and binding obligations of the Selling Stockholder, all authorizations and consents necessary for the execution and delivery of this Agreement and the Custody Agreement and Power of Attorney and for the sale and delivery of the Shares to be sold by the Selling Stockholder hereunder have been given, except as may be required by the NASD or under the Securities Act or state securities laws or Blue Sky laws; and the Selling Stockholder has the legal capacity and full right, power and authority to execute this Agreement and the Custody Agreement and Power of Attorney.

d. The performance of this Agreement and the Custody Agreement and Power of Attorney and the consummation of the transactions contemplated hereby and thereby by the Selling Stockholder will not result in a material breach or violation of, or material conflict with, any of the terms or provisions of, or constitute a material default by the Selling Stockholder under, any indenture, mortgage, deed of trust (constructive or other), loan agreement, lease, franchise, license or other agreement or instrument to which the Selling Stockholder or any of his or her properties is bound, any statute, or any judgment, decree, order, rule or regulation or any court or governmental agency or body applicable to the Selling Stockholder or the property of the Selling Stockholder.

e. The Selling Stockholder has not distributed nor will distribute any prospectus or other offering material in connection with the offer and sale of the Shares other than any Preliminary Prospectus filed with the Commission or the Final Prospectus or other material permitted by the Securities Act.

f. For a period of 120 days from the effective date of the Registration Statement, the Selling Stockholder will not, directly or indirectly, sell, offer to sell, grant any option for the sale of, or otherwise dispose of any shares of Common Stock, other than to the Underwriters pursuant to this Agreement, without the prior written consent of the Underwriters.

g. To the best knowledge of the Selling Stockholder, the representations and warranties of the Company contained in Section 1 of this Agreement are true

and correct; the Selling Stockholder has reviewed and is familiar with the Registration Statement as originally filed with the Commission and the Preliminary Prospectus contained therein. The Preliminary Prospectus does not include an untrue statement of a material fact, or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; the Selling Stockholder is not prompted to sell the Shares to be sold by the Selling Stockholder by any information concerning the Company that is not set forth in the Preliminary Prospectus, the Effective Prospectus, or the Final Prospectus.

h. At the time the Registration Statement becomes effective (i) such parts of the Registration Statement and any amendments and supplements thereto that specifically refer to the Selling Stockholder, if any, will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading and (ii) such parts of the Effective Prospectus and Final Prospectus that specifically refer to the Selling Stockholder, if any, will not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

i. No approval, consent, order, authorization, designation, declaration or filing by or with any regulatory body, administrative or other governmental body is necessary in connection with the execution and delivery of this Agreement by or on behalf of the Selling Stockholder, and the consummation by it of the transactions herein contemplated (other than as by the Securities Act, state securities laws and the NASD).

j. Any certificates signed by or on behalf of the Selling Stockholder as such and delivered to the Underwriters or to counsel for the Underwriters shall be deemed a representation and warranty by the Selling Stockholder to each Underwriter as to the matters covered thereby.

k. In order to document the Underwriters' compliance with the reporting and withholding provisions of the Tax Equity and Fiscal Responsibility Act of 1982 with respect to the transactions herein contemplated, the Selling Stockholder agrees to deliver to the Underwriters prior to or at the First Closing Date (as hereinafter defined) a properly completed and executed United States Treasury Department Form W-9 (or other applicable form or statement specified by Treasury Department regulations in lieu thereof).

l. The Selling Stockholder will not take, directly or indirectly, any action designed to cause or result in, or which might constitute or be expected to constitute, stabilization or manipulation of the price of the Common Stock.

3. Purchase, Sale and Delivery of the Shares.

a. On the basis of the representations, warranties, agreements and covenants herein contained and subject to the terms and conditions herein set forth, the Company and the Selling Stockholders agree to sell to each of the Underwriters, and each of the Underwriters, severally and not jointly, agrees to purchase at a purchase price of \$_____ per share, the number of Firm Shares set forth opposite such Underwriter's name in Schedule I hereto.

b. The Company grants to the Underwriters an option to purchase, solely for the purpose of covering over-allotments in the sale of Firm Shares, all or any portion of the Option Shares at the purchase price per share set forth above. The option granted hereby may be exercised as to all or any part of the Option Shares at any time within 30 days after the date the Registration Statement becomes effective. The Underwriters shall not be under any obligation to purchase any Option Shares prior to the exercise of such option. The option granted hereby may be exercised by the Underwriters giving written notice to the Company setting forth the number of Option Shares to be purchased and the date and time for delivery of and payment for such Option Shares and stating that the Option Shares referred to therein are to be used for the purpose of covering over-allotments in connection with the distribution and sale of the Firm Shares. If such notice is given prior to the First Closing Date (as defined herein), the date set forth therein for such delivery and payment shall not be earlier than two full business days thereafter or the First Closing Date, whichever occurs later. If such notice is given on or after the First Closing Date, the date set forth therein for such delivery and payment shall not be earlier than three full business days thereafter. In either event, the date so set forth shall not be more than 15 full business days after the date of such notice. The date and time set forth in such notice is herein called the "Option Closing Date." Upon exercise of the option, the Company shall become obligated to sell to the Underwriters, and, subject to the terms and conditions herein set forth, the Underwriters shall become obligated to purchase, for the account of each Underwriter, from the Company, severally and not jointly, the number of Option Shares specified in such notice. Option Shares shall be purchased for the accounts of the Underwriters in proportion to the number of Firm Shares set forth opposite such Underwriter's name in Schedule I hereto, except that the respective purchase obligations of each Underwriter shall be adjusted so that no Underwriter shall be obligated to purchase fractional Option Shares.

c. Certificates in definitive form for the Firm Shares which each Underwriter has agreed to purchase hereunder shall be delivered by or on behalf of the Company and the Selling Stockholders to the Underwriters for the account of such Underwriters against payment by such Underwriters or on their behalf of the purchase price therefor by same day funds to the order of the

Company, at the offices of Tucker Anthony Incorporated ("Tucker Anthony"), One Beacon Street, Boston, Massachusetts 02108, or at such other place as may be agreed upon by Tucker Anthony and the Company, at 10:00 A.M., Boston time, on the third full business day after this Agreement becomes effective, such time of delivery against payment being herein referred to as the "First Closing Date." The First Closing Date and the Option Closing Date are herein individually referred to as the "Closing Date" and collectively referred to as the "Closing Dates." Certificates in definitive form for the Option Shares which each Underwriter shall have agreed to purchase hereunder shall be similarly delivered by or on behalf of the Company on the Option Closing Date against payment by such Underwriter or on its behalf of the purchase price in the manner set forth above. The certificates in definitive form for the Shares to be delivered will be in good delivery form and in such denominations and registered in such names as Tucker Anthony may request not less than 48 hours prior to the First Closing Date or the Option Closing Date, as the case may be. Such certificates will be made available for checking and packaging at a location in New York, New York as may be designated by the Underwriters, at least 24 hours prior to the First Closing Date or the Option Closing Date, as the case may be. It is understood that an Underwriter may (but shall not be obligated to) make payment on behalf of any Underwriter or Underwriters for the Shares to be purchased by such Underwriter or Underwriters. No such payment shall relieve such Underwriter or Underwriters from any of its or their obligations hereunder.

4. Offering by the Underwriters. After the Registration Statement becomes effective, the several Underwriters propose to offer for sale to the public the Firm Shares and any Option Shares which may be sold at the price and upon the terms set forth in the Final Prospectus.

5. Covenants of the Company. The Company covenants and agrees with each of the Underwriters that:

a. The Company shall comply with the provisions of and make all requisite filings with the Commission pursuant to Rules 424(b), 430A and 462(b) of the Rules and Regulations and to notify the Underwriters promptly (in writing, if requested) of all such filings. The Company shall notify the Underwriters promptly of any request by the Commission for any amendment of or supplement to the Registration Statement, the Effective Prospectus or the Final Prospectus or for additional information; the Company shall prepare and file with the Commission, promptly upon the request of the Underwriters, any amendments of or supplements to the Registration Statement, the Effective Prospectus or the Final Prospectus which, in the Underwriters' reasonable opinion, may be necessary or advisable in connection with the distribution of the Shares; and the Company shall not file any amendment of or supplement to the Registration Statement, the Effective

Prospectus or the Final Prospectus which is not approved by the Underwriters after reasonable notice thereof. The Company shall advise the Underwriters promptly of the issuance by the Commission or any jurisdiction or other regulatory body of any stop order or other order suspending the effectiveness of the Registration Statement, suspending or preventing the use of any Preliminary Prospectus, the Effective Prospectus or the Final Prospectus or suspending the qualification of the Shares for offering or sale in any jurisdiction, or of the institution of any proceedings for any such purpose; and the Company shall use its best efforts to prevent the issuance of any stop order or other such order and, should a stop order or other such order be issued, to obtain as soon as possible the lifting thereof.

b. The Company will take or cause to be taken all necessary action and furnish to whomever the Underwriters direct such information as may be reasonably required in qualifying the Shares for offer and sale under the securities or Blue Sky laws of such jurisdictions as the Underwriters may designate and will continue such qualifications in effect for as long as may be reasonably necessary to complete the distribution. The Company shall not be required to qualify as a foreign corporation or (except for the sole purpose of complying with Blue Sky filing requirements) to file a general consent to service of process in any jurisdiction where it is not presently qualified or where it would be subject to taxation as a foreign corporation.

c. Within the time during which a Final Prospectus relating to the Shares is required to be delivered under the Securities Act, the Company shall comply with all requirements imposed upon it by the Securities Act, as now and hereafter amended, and by the Rules and Regulations, as from time to time in force, so far as is necessary to permit the continuance of sales of or dealings in the Shares as contemplated by the provisions hereof and the Final Prospectus. If during such period any event occurs as a result of which the Final Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances then existing, not misleading, or if during such period it is necessary to amend the Registration Statement or supplement the Final Prospectus to comply with the Securities Act, the Company shall promptly notify the Underwriters and shall amend the Registration Statement or supplement the Final Prospectus (at the expense of the Company) so as to correct such statement or omission or effect such compliance.

d. The Company will furnish without charge to the Underwriters and make available to the Underwriters copies of the Registration Statement (four of which shall be signed and shall be accompanied by all exhibits, including any which are incorporated by reference, which have not previously been furnished), each Preliminary Prospectus, the Effective Prospectus and the

Final Prospectus, and all amendments and supplements thereto, including any prospectus or supplement prepared after the effective date of the Registration Statement, in each case as soon as available and in such quantities as the Underwriters may reasonably request. The Company will deliver to each Underwriter a copy of each document incorporated by reference in the Effective Prospectus and the Final Prospectus which has not previously been furnished.

- e. The Company will (i) deliver to the Underwriters at such office or offices as the Underwriters may designate as many copies of the Preliminary Prospectus and Final Prospectus as the Underwriters may reasonably request, and (ii) for a period of not more than nine months after the Registration Statement becomes effective, send to the Underwriters as many additional copies of the Final Prospectus and any supplement thereto as the Underwriters may reasonably request.
- f. The Company shall make generally available to its security holders, in the manner contemplated by Rule 158(b) under the Securities Act as promptly as practicable and in any event no later than 90 days after the end of its fiscal quarter in which the first anniversary of the effective date of the Registration Statement occurs, an earnings statement satisfying the provisions of Section 11(a) of the Securities Act covering a period of at least 12 consecutive months beginning after the effective date of the Registration Statement.
- g. The Company will apply the net proceeds from the sale of the Shares as set forth under the caption "Use of Proceeds" in the Final Prospectus.
- h. During a period of five years from the effective date of the Registration Statement, the Company will furnish to the Underwriters copies of all reports and other communications (financial or other) furnished by the Company to its stockholders and, as soon as available, copies of any reports or financial statements furnished or filed by the Company to or with the Commission or any national securities exchange on which any class of securities of the Company may be listed.
- i. The Company will, from time to time, after the effective date of the Registration Statement file with the Commission such reports as are required by the Securities Act, the Exchange Act and the Rules and Regulations, and shall also file with state securities commissions in states where the Shares have been sold by the Underwriters (as the Underwriters shall have advised the Company in writing) such reports as are required to be filed by the securities acts and the regulations of those states.
- j. Except pursuant to this Agreement or with the Underwriters' written consent, for a period of 120 days from the effective date of the Registration Statement,

the Company will not, and the Company has provided agreements executed by each of its executive officers, directors, and the Selling Stockholders of the Company, providing that for a period of 120 days from the First Closing Date, such person or entity will not, offer for sale, sell, grant any options (other than pursuant to existing employee benefit plans and agreements, other existing compensation agreements and existing stock options), rights or warrants with respect to any shares of Common Stock, securities convertible into Common Stock or any other capital stock of the Company, or otherwise dispose of, directly or indirectly, any shares of Common Stock or such other securities or capital stock.

k. If at any time during the 25 day period after the Registration Statement is declared effective, any rumor, publication or event relating to or affecting the Company shall occur as a result of which, in the Underwriters' opinion, the market price for the Shares has been or is likely to be materially affected (regardless of whether such rumor, publication or event necessitates a supplement to or amendment of the Final Prospectus), the Company will, after written notice from the Underwriters advising them as to the effect set forth above, prepare, consult with the Underwriters concerning the substance of and disseminate a press release or other public statement, reasonably satisfactory to the Underwriters, responding to or commenting on such rumor, publication or event.

l. The Company will not take, directly or indirectly, any action designed to cause or result in, or which might constitute or be expected to constitute, stabilization or manipulation of the price of the Common Stock.

m. The Company will not take, directly or indirectly, any action which would cause or result in the delisting or the Company's Common Stock on the Nasdaq National Market prior to the First Closing Date or, if the Underwriters exercise the option granted by the Company to cover overallotment, prior to the Option Closing Date.

6. Expenses. The Company and the Selling Stockholders agree with the Underwriters that (a) whether or not the transactions contemplated by this Agreement are consummated or this Agreement becomes effective or is terminated, the Company will pay all fees and expenses incident to the performance of the obligations of the Company and the Selling Stockholders hereunder, including, but not limited to, (i) the Commission's registration fee, (ii) the expenses of printing (or reproduction) and distributing the Registration Statement (including the financial statements therein and all amendments and exhibits thereto), each Preliminary Prospectus, the Effective Prospectus, the Final Prospectus, any amendments or supplements thereto, and this Agreement and other underwriting documents, including the Underwriters' Questionnaires and Blue Sky Memoranda, (iii) fees and expenses of accountants and counsel for the Company and the Selling Stockholders, (iv) expenses of registration or qualification of the Shares under state Blue Sky and securities laws, including the fees and disbursements of counsel to the Underwriters in connection therewith, (v)

filing fees paid or incurred by the Underwriters and related fees and expenses of counsel to the Underwriters in connection with filings with the NASD, (vi) fees, costs and expenses associated with the registration and listing of the Shares on the Nasdaq National Market, (vii) the costs and charges of the Company's transfer agent and registrar and the cost of preparing the certificates for the Shares, (viii) all other costs and expenses incident to the performance of their obligations hereunder not otherwise provided for in this Section 6; and (b) the out-of-pocket expenses, including counsel fees, disbursements and expenses, incurred by the Underwriters in connection with investigating, preparing to market and marketing the Shares and proposing to purchase and purchasing the Shares under this Agreement will be borne and paid by the Company if the sale of the Shares provided for herein is not consummated by reason of the termination of this Agreement by the Company pursuant to Section 14(a)(i), or because of any failure or refusal on the part of the Company to comply or fulfill any of the conditions of this Agreement. Except as provided in this Section, the Underwriters shall pay all of their own expenses.

7. Conditions of the Underwriters' Obligations. The respective obligations of the Underwriters to purchase and pay for the Firm Shares shall be subject, in their discretion, to the accuracy of the representations and warranties of the Company and the Selling Stockholders herein as of the date hereof and as of the Closing Date as if made on and as of the Closing Date, to the accuracy of the statements of the Company's officers made pursuant to the provisions hereof, to the performance by the Company and the Selling Stockholders of all of their covenants and agreements hereunder and to the following additional conditions:

a. The Registration Statement and all post-effective amendments thereto shall have become effective not later than 5:30 P.M., Washington, D.C. time, on the day following the date of this Agreement, or such later time and date as shall have been consented to by the Underwriters and all filings required by Rules 424, 430A and 462 of the Rules and Regulations shall have been made; no stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for that purpose shall have been instituted or threatened or, to the knowledge of the Company or the Underwriters, shall be contemplated by the Commission; any request of the Commission for additional information (to be included in the Registration Statement or the Final Prospectus or otherwise) shall have been complied with to the Underwriters' satisfaction; and the NASD, upon review of the terms of the public offering of the Shares, shall not have objected to such offering, such terms or the Underwriters' participation in the same.

b. No Underwriter shall have advised the Company that the Registration Statement, Preliminary Prospectus, the Effective Prospectus or Final Prospectus, or any amendment or any supplement thereto, contains an untrue statement of fact which, in the Underwriters' reasonable judgment, is material, or omits to state a fact which, in the Underwriters' judgment, is material and is required to be stated therein or necessary to make the statements therein not misleading and the Company shall not have cured such

untrue statement of fact or stated a statement of fact required to be stated therein.

c. The Underwriters shall have received an opinion, dated the Closing Date, from Hutchins, Wheeler & Dittmar, a professional corporation ("Hutchins, Wheeler & Dittmar"), counsel for the Company, substantially to the effect that:

(1) The Company has been duly organized and is validly existing in good standing as a corporation under the laws of the Commonwealth of Massachusetts, with corporate power and authority to own its properties and conduct its business as now conducted, and is duly qualified to do business as a foreign corporation in good standing in all other jurisdictions where the failure to so qualify would have a material adverse effect upon the Company and its subsidiaries taken as a whole. The Company holds all licenses, certificates, permits, franchises and authorizations from governmental authorities which are material to the conduct of its business in all locations in which such business is currently being conducted.

(2) Each of the Company's subsidiaries is validly existing and in good standing as a corporation under the laws of the state of its incorporation or organization, as the case may be, with power and authority to own its properties and conduct its business as now conducted, and is duly qualified or authorized to do business and is in good standing in all other jurisdictions where the failure to so qualify would have a material adverse effect upon the business of the Company and its subsidiaries taken as a whole. The outstanding stock of each of the Company's subsidiaries is duly authorized, validly issued, fully paid and nonassessable. All of the outstanding stock of each of the corporate subsidiaries owned beneficially and of record by the Company is owned free and clear of all liens, encumbrances, equities and claims. No options or warrants or other rights to purchase, agreements or other obligations to issue or other rights to convert any obligations into any shares of capital stock or of ownership interests in any of the Company's subsidiaries are outstanding. Each of the Company's subsidiaries holds all licenses, certificates, permits, franchises and authorizations from governmental authorities which are material to the conduct of its business in all locations in which such business is currently being conducted.

(3) As of the dates specified therein, the Company had authorized and issued capital stock as set forth under the caption "Capitalization" in the Final Prospectus. All of the outstanding shares of the capital stock of the Company (including the Shares to be sold by the Selling Stockholders) have been duly authorized and are validly issued, fully

paid and nonassessable, and the Shares to be sold by the Company have been duly authorized, and upon issuance thereof and payment therefor as provided herein, will be validly issued, fully paid and nonassessable; none of the issued shares (including the Shares to be sold by the Selling Stockholders) have been issued in violation of or subject to any preemptive rights provided for by law or by the Company's Articles of Organization. There are no preemptive rights or, to the knowledge of such counsel, other rights to subscribe for or to purchase, or any restriction upon the transfer of, the Shares pursuant to the Company's Articles of Organization, bylaws or other governing documents or, to the knowledge of such counsel, any agreement or other instrument to which the Company is a party or by which it may be bound except as described in the Effective Prospectus and Final Prospectus and except for restrictions on transfer imposed under applicable securities laws.

Neither the filing of the Registration Statement nor the offer or sale of the Shares as contemplated by this Agreement gives rise to any rights, other than those which have been waived or satisfied, for or relating to the registration of any shares of Common Stock or any other securities of the Company. The Underwriters will receive good and marketable title to the Shares to be sold by the Company to be issued and delivered pursuant to this Agreement, free and clear of all liens, encumbrances, claims, security interests, restrictions, stockholders' agreements and voting trusts whatsoever. The capital stock of the Company and the Shares conform to the description thereof contained in the Final Prospectus.

All offers and sales of the Company's securities (including the Shares to be sold by the Selling Stockholders) prior to the date hereof were at all relevant times duly registered or exempt from the registration requirements of the Securities Act and were duly registered or the subject of an exemption from the registration requirements of applicable state securities or Blue Sky laws, or if not registered in compliance with the applicable federal and state securities laws, any actions arising from such failure to register any such securities are barred by applicable statute of limitations.

(4) The Company has full legal right, power and authority to enter into this Agreement and the Custody Agreement and Power of Attorney and to issue, sell and deliver the Shares to be sold by it to the Underwriters as provided herein, and this Agreement and the Custody Agreement and Power of Attorney have been duly authorized, executed and delivered by the Company and constitute the valid and legally binding obligation of the Company enforceable against the Company in accordance with its terms, except as enforceability may be limited by general equitable principles, bankruptcy, insolvency,

reorganization, moratorium, fraudulent transfer, fraudulent conveyance or other laws affecting creditors' rights generally.

(5) No consent, approval, authorization or order of any court or governmental agency or body or third party is required for the performance of this Agreement or the Custody Agreement and Power of Attorney by the Company or the consummation by the Company of the transactions contemplated hereby and thereby, except such as have been obtained under the Securities Act and such as may be required by the NASD and under state securities or Blue Sky laws in connection with the purchase and distribution of the Shares by the several Underwriters. The performance of this Agreement and the Custody Agreement and Power of Attorney by the Company and the consummation by the Company of the transactions contemplated hereby and thereby will not conflict with or result in a breach or violation by the Company of any of the terms or provisions of, or constitute a default by the Company under, any indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument known to such counsel to which the Company is a party or to which the Company or its properties is subject, the Articles of Organization or bylaws of the Company, any statute, or any judgment, decree, order, rule or regulation known to such counsel of any court or governmental agency or body applicable to the Company or any of its subsidiaries or their properties.

(6) Except as described in the Final Prospectus, there is not pending, or to the best knowledge of such counsel threatened, any action, suit, proceeding, inquiry or investigation, to which the Company or any of its subsidiaries is a party, or to which the property of the Company or any of its subsidiaries is subject, before or brought by any court or governmental agency or body, which, if determined adversely to the Company or any of its subsidiaries, could result in any material adverse change in the business, financial position, net worth or results of operations, or could materially adversely affect the properties or assets, of the Company or any of its subsidiaries.

(7) To the best knowledge of such counsel, no default exists, and no event has occurred which with notice or after the lapse of time to cure or both, would constitute a default, in the due performance and observance of any term, covenant or condition of any indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which the Company or any of its subsidiaries is a party or to which they or their properties are subject, or of the Articles of Organization or bylaws of the Company or any of its subsidiaries.

(8) To the best knowledge of such counsel after reasonable inquiry, neither the Company nor any of its subsidiaries is in violation of any law, ordinance, administrative or governmental rule or regulation applicable to the Company or any of its subsidiaries and material to the Company and its subsidiaries taken as a whole or any decree of any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries.

(9) The Registration Statement and all post effective amendments thereto have become effective under the Securities Act, and, to the best knowledge of such counsel, no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or are threatened, pending or contemplated by the Commission. All filings required by Rule 424 and Rule 430A of the Rules and Regulations have been made; the Registration Statement, the Effective Prospectus and Final Prospectus, and any amendments or supplements thereto (except for the financial statements and schedules included therein as to which such counsel need express no opinion), as of their respective effective or issue dates, complied as to form in all material respects with the requirements of the Securities Act and the Rules and Regulations; the descriptions in the Registration Statement, the Effective Prospectus and the Final Prospectus of statutes, regulations, legal and governmental proceedings, and contracts and other documents are accurate in all material respects and present fairly the information required to be stated; and such counsel does not know of any pending or threatened legal or governmental proceedings, statutes or regulations required to be described in the Final Prospectus which are not described as required nor of any contracts or documents of a character required to be described in the Registration Statement or the Final Prospectus or to be filed as exhibits to the Registration Statement which are not described and filed as required.

(10) The information in the Effective Prospectus and the Final Prospectus under the caption "Description of Capital Stock," insofar as it purports to summarize the capital stock of the Company, is correct in all material respects.

In addition to the matters set forth above, such opinion shall also include a statement to the effect that nothing has come to the attention of such counsel which leads them to believe that the Registration Statement, the Effective Prospectus and the Final Prospectus or any amendment or supplement thereto contains an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not

misleading (except that such counsel need express no view as to financial statements, schedules and other financial information included therein).

d. The Underwriters shall have received an opinion, dated the Closing Date, of Hutchins, Wheeler and Dittmar as counsel for the Selling Stockholders, substantially to the effect that:

(1) This Agreement and the Custody Agreement and Power of Attorney have been duly executed and delivered by or on behalf of each of the Selling Stockholders and constitute valid and binding agreements of the Selling Stockholders in accordance with their terms, except as enforceability may be limited by applicable equitable principles or by bankruptcy, insolvency, moratorium, reorganization or similar laws from time to time in effect affecting the enforcement of creditors' rights and except that the enforceability of the rights to indemnity and contribution contained herein may be limited by federal or state laws and public policy underlying such laws.

(2) To the best knowledge of such counsel, the sale of the Shares to be sold by the Selling Stockholders hereunder and the compliance by the Selling Stockholders with all of the provisions of this Agreement and the Custody Agreement and Power of Attorney, and the consummation of the transactions herein and therein contemplated will not conflict with or result in a breach or violation of any terms or provisions of, or constitute a default under any material indenture, mortgage, deed of trust, loan agreement or other agreement or instrument known to such counsel to which any of the Selling Stockholders is a party or by which any of the Selling Stockholders is bound or to which any of the property or assets of any of the Selling Stockholders is subject, or any statute, order, rule or regulation of any court or governmental agency or body known to such counsel to be applicable to the Selling Stockholders or the property of the Selling Stockholders.

(3) To the knowledge of such counsel, no consent, approval, authorization or order of any court or governmental agency or body is required for the consummation of the transactions contemplated by this Agreement and the Custody Agreement and Power of Attorney in connection with the Shares to be sold by the Selling Stockholders hereunder, except which have been duly obtained and in full force and effect, such as have been obtained under the Securities Act and such as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of such Shares by the Underwriters, as to which such counsel need express no opinion.

(4) The Selling Stockholders have full right, power and authority to sell, transfer and deliver such Shares pursuant to this Agreement and the Custody Agreement and Power of Attorney. Assuming that the Underwriters will take delivery of the Shares for value in good faith and without notice of any adverse claim within the meaning of the Uniform Commercial Code and that the Underwriters are not parties themselves to any fraud or illegality affecting the Shares, and by delivery of a certificate or certificates therefor, the Selling Stockholders will transfer to the Underwriters good and marketable title to such shares, free and clear of (i) all liens, encumbrances, claims, security interests and (ii) to the knowledge of such counsel, all restrictions, stockholders' agreements and voting trusts.

e. The Underwriters shall have received an opinion or opinions, dated the Closing Date, of Bass, Berry & Sims PLC, counsel for the Underwriters, with respect to the Registration Statement and the Final Prospectus, and such other related matters as the Underwriters may require, and the Company shall have furnished to such counsel such documents as they may reasonably request for the purpose of enabling them to pass upon such matters. Such counsel may rely on Hutchins, Wheeler, Dittmar as to matters of Massachusetts law.

f. The Underwriters shall have received from Ernst & Young LLP, a letter dated the date hereof and, at the Closing Date, a second letter dated the Closing Date, in form and substance satisfactory to the Underwriters, stating that they are independent public accountants with respect to the Company and its subsidiaries within the meaning of the Securities Act and the applicable Rules and Regulations, and to the effect that:

(1) In their opinion, the financial statements and schedules examined by them and included in the Registration Statement comply as to form in all material respects with the applicable accounting requirements of the Securities Act and the published Rules and Regulations and are presented in accordance with generally accepted accounting principles; and they have made a review in accordance with standards established by the American Institute of Certified Public Accountants of the consolidated interim financial statements, selected financial data, and/or condensed financial statements derived from audited financial statements of the Company;

(2) The unaudited selected financial information included in the Preliminary Prospectus and the Final Prospectus under the captions "Prospectus Summary" and "Selected Consolidated Financial Information" for the years ended December 31, 1997, 1996, 1995, 1994 and 1993 agrees with the corresponding amounts in the audited

financial statements incorporated by reference in the Final Prospectus or previously reported on by them;

(3) On the basis of a reading of the latest available unaudited interim consolidated financial statements of the Company and its subsidiaries, a reading of the minute books of the Company and its subsidiaries, inquiries of management of the Company responsible for financial and accounting matters and other specified procedures, all of which have been agreed to by the Underwriters, nothing came to their attention that caused them to believe that:

(a) the unaudited financial statements included in the Registration Statement do not comply as to form in all material respects with the accounting requirements of the federal securities laws and the related published rules and regulations thereunder or are not in conformity with generally accepted accounting principles applied on a basis substantially consistent with the basis for the audited financial statements contained in the Registration Statement;

(b) any other unaudited financial statement data included in the Final Prospectus do not agree with the corresponding items in the unaudited consolidated financial statements from which data was derived and any such unaudited data were not determined on a basis substantially consistent with the basis for the corresponding amounts in the audited financial statements included in the Prospectus;

(c) at a specified date not more than five days prior to the date of delivery of such respective letter, there was any change in the consolidated capital stock, decline in stockholders' equity or increase in long-term debt of the Company and its subsidiaries, or other items specified by the Underwriters, in each case as compared with amounts shown in the latest balance sheets included in the Final Prospectus, except in each case for changes, decreases or increases which the Final Prospectus discloses have occurred or may occur or which are described in such letters; and

(d) for the period from the closing date of the latest consolidated statements of income included in the Effective Prospectus and the Final Prospectus to a specified date not more than five days prior to the date of delivery of such respective letter, there were any decreases in total revenues or net income of the Company, or other items specified by the Underwriters,

or any increases in any items specified by the Underwriters, in each case as compared with the corresponding period of the preceding year, except in each case for decreases which the Final Prospectus discloses have occurred or may occur or which are described in such letter.

They have carried out certain specified procedures, not constituting an audit, with respect to certain amounts, percentages and financial information specified by the Underwriters which are derived from the general accounting records of the Company and its subsidiaries, which appear in the Effective Prospectus and the Final Prospectus and have compared and agreed such amounts, percentages and financial information with the accounting records of the Company and its subsidiaries or to analyses and schedules prepared by the Company and its subsidiaries from its detailed accounting records.

In the event that the letters to be delivered referred to above set forth any such changes, decreases or increases, it shall be a further condition to the obligations of the Underwriters that the Underwriters shall have determined, after discussions with officers of the Company responsible for financial and accounting matters and with Ernst & Young LLP, that such changes, decreases or increases as are set forth in such letters do not reflect a material adverse change in the stockholders' equity or long-term debt of the Company as compared with the amounts shown in the latest consolidated balance sheets of the Company included in the Final Prospectus, or a material adverse change in total revenues or net income, of the Company, in each case as compared with the corresponding period of the prior year.

g. There shall have been furnished to the Underwriters a certificate, dated the Closing Date and addressed to the Underwriters, signed by the Chief Executive Officer and by the Chief Financial Officer of the Company to the effect that:

(1) the representations and warranties of the Company in Section 1 of this Agreement are true and correct, as if made at and as of the Closing Date, and the Company has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the Closing Date;

(2) no stop order suspending the effectiveness of the Registration Statement has been issued, and no proceedings for that purpose have been initiated or are pending, or to their knowledge, threatened under the Securities Act;

(3) all filings required by Rules 424, 430A and 462 of the Rules and Regulations have been made;

(4) they have carefully examined the Registration Statement, the Effective Prospectus and the Final Prospectus, and any amendments or supplements thereto, and such documents do not include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading; and

(5) since the effective date of the Registration Statement, there has occurred no event required to be set forth in an amendment or supplement to the Registration Statement, the Effective Prospectus or the Final Prospectus which has not been so set forth.

h. Subsequent to the respective dates as of which information is given in the Registration Statement and the Final Prospectus, and except as stated therein, the Company and its subsidiaries shall have not sustained any material loss or interference with their respective businesses or properties from fire, flood, hurricane, earthquake, accident or other calamity, whether or not covered by insurance, or from any labor dispute or any court or governmental action, order or decree, or become a party to or the subject of any litigation which is material to the Company and its subsidiaries taken as a whole, nor shall there have been any material adverse change, or any development involving a prospective material adverse change, in the business, properties, key personnel, capitalization, net worth results of operations or condition (financial or other) of the Company and its subsidiaries taken as a whole, which loss, interference, litigation or change, in the Underwriters' judgment shall render it unadvisable to commence or continue the offering of the Shares at the offering price to the public set forth on the cover page of the Prospectus or to proceed with the delivery of the Shares.

i. The representations and warranties of the Selling Stockholders shall be true and correct as of the Closing Date, and the Selling Stockholders shall deliver to the Underwriters a certificate to that effect dated the Closing Date and executed by or on behalf of the Selling Stockholders.

All such opinions, certificates, letters and documents delivered pursuant to this Agreement will comply with the provisions hereof only if they are reasonably satisfactory to the Underwriters and their counsel. The Company shall furnish to the Underwriters such conformed copies of such opinions, certificates, letters and documents in such quantities as the Underwriters shall reasonably request.

The respective obligations of the Underwriters to purchase and pay for the Option Shares shall be subject, in their discretion, to each of the foregoing conditions to purchase the Firm Shares, except

that all references to the "Closing Date" shall be deemed to refer to the Option Closing Date, if it shall be a date other than the Closing Date.

8. Condition of the Company's and the Selling Stockholders' Obligations. The obligations hereunder of the Company and the Selling Stockholders are subject to the condition set forth in Section 7(a) hereof.

9. Indemnification and Contribution.

a. The Company agrees to indemnify and hold harmless each Underwriter, and each person, if any, who controls any Underwriter within the meaning of the Securities Act, against any losses, claims, damages or liabilities, joint or several, to which such Underwriter or controlling person may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based in whole or in part upon (i) any inaccuracy in the representations and warranties of the Company or the Selling Stockholders contained herein, (ii) any failure of the Company or the Selling Stockholders to perform its or their obligations hereunder or under law or (iii) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, any Preliminary Prospectus, the Effective Prospectus or Final Prospectus, or any amendment or supplement thereto, or in any Blue Sky application or other written information furnished by the Company or the Selling Stockholders filed in any state or other jurisdiction in order to qualify any or all of the Shares under the securities laws thereof (a "Blue Sky Application"), or arise out of or are based upon the omission or alleged omission to state in the Registration Statement, any Preliminary Prospectus, the Effective Prospectus or Final Prospectus or any amendment or supplement thereto or any Blue Sky Application a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse each Underwriter and each such controlling person for any legal or other expenses reasonably incurred by such Underwriter or such controlling person in connection with investigating or defending any such loss, claim, damage, liability or action as such expenses are incurred; provided, however, that neither the Company nor the Selling Stockholders will be liable in any such case to the extent that any such loss, claim, damage, or liability arises out of or is based upon any untrue statement or alleged untrue statement or omission or alleged omission made in the Registration Statement, the Preliminary Prospectus, the Effective Prospectus or Final Prospectus or such amendment or such supplement or any Blue Sky Application in reliance upon and in conformity with written information furnished to the Company by any Underwriter specifically for use therein (it being understood that the only information so provided is the information included in the last paragraph on the cover page and in the first, third and fourth paragraphs under the caption "Underwriting" in any Preliminary

Prospectus and the Final Prospectus and the Effective Prospectus). The Company shall be liable for the full amount of all claims pursuant to this Section and this Agreement.

b. Each Underwriter will indemnify and hold harmless the Selling Stockholders and the Company, each of its directors, each of its officers who signed the Registration Statement and each person, if any, who controls the Company within the meaning of the Securities Act against any losses, claims, damages or liabilities to which the Company or any such director, officer or controlling person may become subject, under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, any Preliminary Prospectus, the Effective Prospectus or Final Prospectus, or any amendment or supplement thereto, or any Blue Sky Application, or arise out of or are based upon the omission or the alleged omission to state in the Registration Statement, any Preliminary Prospectus, the Effective Prospectus or Final Prospectus or any amendment or supplement thereto or any Blue Sky Application a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by any Underwriter specifically for use therein (it being understood that the only information so provided is the information included in the last paragraph on the cover page and in the first, third and fourth paragraphs under the caption "Underwriting" in any Preliminary Prospectus and in the Effective Prospectus and the Final Prospectus);

c. Promptly after receipt by an indemnified party under this Section 9 of notice of the commencement of any action, including governmental proceedings, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 9 notify the indemnifying party of the commencement thereof; but the omission so to notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party otherwise than under this Section 9. In case any such action is brought against any indemnified party, and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein, and to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party; and after notice from the indemnifying party to such indemnified party of its election to so assume the defense thereof, the indemnifying party will not be liable to such indemnified party under this Section 9 for any legal or other expenses subsequently incurred by such indemnified party in connection with the

defense thereof other than reasonable costs of investigation except that the indemnified party shall have the right to employ separate counsel if, in its reasonable judgment, it is advisable for the indemnified party and any other Underwriter to be represented by separate counsel, and in that event the fees and expenses of separate counsel shall be paid by the indemnifying party. Neither the Company nor any of the Selling Stockholders will, without prior written consent of each Underwriter, settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action, suit or proceeding (or related cause of action or portion thereof) in respect of which indemnification may be sought hereunder (whether or not such Underwriter is a party to such claim, action, suit or proceeding), unless such settlement, compromise or consent includes an unconditional release of such Underwriter from all liability arising out of such claim, action, suit or proceeding (or related cause of action or portion thereof).

d. In order to provide for just and equitable contribution in circumstances in which the indemnity agreement provided for in the preceding part of this

Section 9 is for any reason held to be unavailable to the Underwriters, or the Company is insufficient to hold harmless an indemnified party, then the Company shall contribute to the damages paid by the Underwriters, and the Underwriters shall contribute to the damages paid by the Company provided, however, that no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. In determining the amount of contribution to which the respective parties are entitled, there shall be considered the relative benefits received by each party from the offering of the Shares (taking into account the portion of the proceeds of the offering realized by each), the parties' relative knowledge and access to information concerning the matter with respect to which the claim was asserted, the opportunity to correct and prevent any statement or omission, and any other equitable considerations appropriate under the circumstances. The Company, and the Underwriters agree that it would not be equitable if the amount of such contribution were determined by pro rata or per capita allocation (even if the Underwriters were treated as one entity for such purpose). No Underwriter or person controlling such Underwriter shall be obligated to make contribution hereunder which in the aggregate exceeds the underwriting discount applicable to the Shares purchased by such Underwriter under this Agreement, less the aggregate amount of any damages which such Underwriter and its controlling persons have otherwise been required to pay in respect of the same or any similar claim. The Underwriters' obligations to contribute hereunder are several in proportion to their respective underwriting obligations and not joint. For purposes of this Section, each person, if any, who controls an Underwriter within the meaning of Section 15 of the Securities Act shall have the same rights to contribution as such

Underwriter, and each director of the Company, each officer of the Company who signed the Registration Statement, and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act, shall have the same rights to contribution as the Company.

e. The obligations of the Company under this Section 9 shall be in addition to any liability which the Company may otherwise have and shall extend, upon the same terms and conditions, to each person, if any, who controls any Underwriter within the meaning of the Securities Act; and the obligations of the Underwriters under this Section 9 shall be in addition to any liability which the respective Underwriters may otherwise have and shall extend, upon the same terms and conditions, to each officer and director of the Company and to each person, if any, who controls the Company within the meaning of the Securities Act.

10. Default of Underwriters. If any Underwriter defaults in its obligation to purchase Shares hereunder and if the total number of Shares which such defaulting Underwriter agreed but failed to purchase is ten percent or less of the total number of Shares to be sold hereunder, the non-defaulting Underwriters shall be obligated severally to purchase (in the respective proportions which the number of Shares set forth opposite the name of each non-defaulting Underwriter in Schedule I hereto bears to the total number of Shares set forth opposite the names of all the non-defaulting Underwriters), the Shares which such defaulting Underwriter or Underwriters agreed but failed to purchase. If any Underwriter so defaults and the total number of Shares with respect to which such default or defaults occur is more than ten percent of the total number of Shares to be sold hereunder, and arrangements satisfactory to the other Underwriters and the Company for the purchase of such Shares by other persons (who may include the non-defaulting Underwriters) are not made within 36 hours after such default, this Agreement, insofar as it relates to the sale of the Shares, will terminate without liability on the part of the non-defaulting Underwriters or the Company except for (i) the provisions of Section 9 hereof, and (ii) the expenses to be paid or reimbursed by the Company pursuant to Section 6. As used in this Agreement, the term "Underwriter" includes any person substituted for an Underwriter under this Section 10. Nothing herein shall relieve a defaulting Underwriter from liability for its default.

11. Default by the Selling Stockholders. If any of the Selling Stockholders fails to sell and deliver the number of Shares that such Selling Stockholder is obligated to sell, the Underwriters may, at their option, by notice to the Company, either (a) require the Company to sell and deliver such number of shares of Common Stock as to which such Selling Stockholder has defaulted, or (b) terminate this Agreement if the Company shall have refused to sell and deliver to the Underwriters the shares of Common Stock referred to in Section 11(a). In the event of a default under this Section 11 that does not result in the termination of this Agreement, the Underwriters shall have the right to postpone the First Closing Date for a period not exceeding seven days in order to effect any required changes in the Registration Statement or Prospectus or in any other documents or arrangements. No action taken pursuant to this Section 11 shall relieve the Company or the Selling Stockholder so defaulting from liability, if any, in respect of such default.

12. Survival Clause. The respective representations, warranties, agreements, covenants, indemnities and other statements of the Selling Stockholders, the Company, its officers and the Underwriters set forth in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement shall remain in full force and effect, regardless of (i) any investigation made by or on behalf of the Selling Stockholders, the Company, any of its officers or directors, any Underwriter or any controlling person, (ii) any termination of this Agreement and (iii) delivery of and payment for the Shares.

13. Effective Date. This Agreement, after due execution, shall become effective at whichever of the following times shall first occur: (i) at 11:30 A.M., Washington, D.C. time, on the next full business day following the date on which the Registration Statement becomes effective or (ii) at such time after the Registration Statement has become effective as the Underwriters shall release the Firm Shares for sale to the public; provided, however, that the provisions of Sections 6, 9, 12 and 13 hereof shall at all times be effective. For purposes of this Section 13, the Firm Shares shall be deemed to have been so released upon the release by the Underwriters for publication, at any time after the Registration Statement has become effective, of any newspaper advertisement relating to the Firm Shares or upon the release by the Underwriters of telegrams offering the Firm Shares for sale to securities dealers, whichever may occur first.

14. Termination.

a. The Company's obligations under this Agreement may be terminated by the Company by notice to the Underwriters (i) at any time before it becomes effective in accordance with Section 13 hereof, or (ii) in the event that the condition set forth in Section 8 shall not have been satisfied at or prior to the First Closing Date.

b. This Agreement may be terminated by the Underwriters by notice to the Company and the Selling Stockholders (i) at any time before it becomes effective in accordance with Section 13 hereof; (ii) in the event that at or prior to the First Closing Date the Company or the Selling Stockholders shall have failed, refused or been unable to perform any agreement on the part of the Company or the Selling Stockholders to be performed hereunder or any other condition to the obligations of the Underwriters hereunder is not fulfilled; (iii) if at or prior to the Closing Date trading in securities on the New York Stock Exchange, the American Stock Exchange or the over-the-counter market shall have been suspended or materially limited or minimum or maximum prices shall have been established on either of such Exchanges or such market, or a banking moratorium shall have been declared by Federal or state authorities; (iv) if at or prior to the Closing Date trading in securities of the Company shall have been suspended; or (v) if there shall have been such a material change in general economic, political or financial conditions or if the effect of international conditions on the financial markets in the United States shall be such as, in the Underwriters' reasonable judgment, makes it inadvisable to commence or continue the offering of the Shares at

the offering price to the public set forth on the cover page of the Prospectus or to proceed with the delivery of the Shares.

c. Termination of this Agreement pursuant to this

Section 14 shall be without liability of any party to any other party other than as provided in Sections 6 and 9 hereof.

15. Notices. All communications hereunder shall be in writing and, if sent to any of the Underwriters, shall be mailed or delivered or telegraphed and confirmed in writing to Tucker Anthony Incorporated, One Beacon Street, Boston, Massachusetts 02108, Attn: Gregory W. Benning, or if sent to the Company or the Selling Stockholders shall be mailed, delivered or telegraphed and confirmed in writing to the Company at 430 Main Street, Williamstown, Massachusetts 01267, Attn: Richard A. Stratton.

16. Miscellaneous. This Agreement shall inure to the benefit of and be binding upon the several Underwriters, the Company and the Selling Stockholders and their respective successors and legal representatives. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any other person any legal or equitable right, remedy or claim under or in respect of this Agreement. This Agreement and all conditions and provisions hereof are intended to be for the sole and exclusive benefit of the Company, the Selling Stockholders and the several Underwriters and for the benefit of no other person except that (i) the representations and warranties of the Company and the Selling Stockholders and contained in this Agreement shall also be for the benefit of any person or persons who control any Underwriter within the meaning of Section 15 of the Securities Act, and (ii) the indemnities by the Underwriters shall also be for the benefit of the directors of the Company, officers of the Company who have signed the Registration Statement and any person or persons who control the Company within the meaning of Section 15 of the Securities Act. No purchaser of Shares from any Underwriter will be deemed a successor because of such purchase. The validity and interpretation of this Agreement shall be governed by the laws of the State of Massachusetts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

If the foregoing is in accordance with your understanding of our agreement, please indicate your acceptance thereof in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement between the Company, the Selling Stockholders and each of the several Underwriters.

Very truly yours,

LITCHFIELD FINANCIAL CORPORATION

By:

Name:

Title:

SELLING STOCKHOLDERS, named in Schedule II hereto:

By:

Richard A. Stratton, Attorney-in-Fact

Confirmed and accepted as of the date first above written.

TUCKER ANTHONY INCORPORATED

By: _____

Name: _____

Title: _____

McDONALD & COMPANY SECURITIES, INC.

By: _____

Name: _____

Title: _____

J.C. BRADFORD & CO.

By: _____

Name: _____

Title: _____

SCHEDULE I

UNDERWRITERS

UNDERWRITER	NUMBER OF FIRM SHARES TO BE PURCHASED
-----	-----
Tucker Anthony Incorporated.....	
McDonald & Company Securities, Inc.....	
J.C. Bradford & Co.....	
Total Firm Shares to be Purchased.....	----- 1,150,000 =====

SCHEDULE II

SELLING STOCKHOLDERS

NAME	NUMBER OF FIRM SHARES TO BE PURCHASED FROM SELLING SHAREHOLDERS
----- Richard A. Stratton.....	
Heather A. Sica.....	
Total Firm Shares to be Purchased from the Selling Shareholders.....	----- 150,000 =====

Exhibit 4.1

[LITCHFIELD FINANCIAL CORPORATION LOGO]

LITCHFIELD FINANCIAL CORPORATION

INCORPORATED UNDER THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS

NUMBER SHARES

LFC 3336

SEE REVERSE FOR CERTAIN DEFINITIONS

THIS CERTIFIES THAT CUSIP 536619 10 9

SPECIMEN

IS THE OWNER OF

FULLY PAID AND NON-ASSESSABLE SHARES OF THE COMMON STOCK, \$.01 PAR VALUE, OF

LITCHFIELD FINANCIAL CORPORATION

TRANSFERABLE ONLY ON THE BOOKS OF THE CORPORATION IN PERSON OR BY DULY AUTHORIZED ATTORNEY UPON SURRENDER OF THIS CERTIFICATE PROPERLY INDORSED OR ASSIGNED. THE CERTIFICATE AND THE SHARES REPRESENTED HEREBY ARE ISSUED AND HELD SUBJECT TO THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS, THE ARTICLES OF ORGANIZATION OF THE CORPORATION, AS AMENDED, AND THE BYLAWS OF THE CORPORATION AS AMENDED.

THIS CERTIFICATE IS NOT VALID UNTIL COUNTERSIGNED BY THE TRANSFER AGENT.

IN WITNESS WHEREOF, THE CORPORATION HAS CAUSED THIS CERTIFICATE TO BE EXECUTED BY THE FACSIMILE SIGNATURES OF ITS DULY AUTHORIZED OFFICERS AND SEALED WITH THE FACSIMILE SEAL OF THE CORPORATION.

DATED:

COUNTERSIGNED:

STATE STREET BANK AND TRUST COMPANY
OR
TRANSFER AGENT

LITCHFIELD FINANCIAL
CORPORATION SEAL

AUTHORIZED SIGNATURES

/s/ R.A. STRATTON
PRESIDENT

/s/ JOHN J. MALLOY
CLERK

EXHIBIT 5.1

May 21, 1998

Litchfield Financial Corporation
430 Main Street
Williamstown, Massachusetts 01267

Ladies and Gentlemen:

In connection with the registration under the Securities Act of 1933, as amended, of up to 1,322,500 shares (the "Shares") of Common Stock, par value \$.01 per share, of Litchfield Financial Corporation, a Massachusetts corporation (the "Company"), proposed to be sold by the Company and Selling Stockholders, pursuant to an Underwriting Agreement (the "Underwriting Agreement") among the Company, Tucker Anthony Incorporated, McDonald & Company Securities, Inc. and J. C. Bradford & Co., as underwriters (the "Underwriters"), we have examined such corporate records and other documents, including the Registration Statement on Form S-3, of even date herewith, relating to such Shares (the Registration Statement as declared effective being hereinafter referred to as the "Registration Statement") and the related prospectus, and have reviewed such matters of law as we have deemed necessary as a basis for the opinion as hereinafter expressed.

Based upon the foregoing and having regard for such legal considerations as we deem relevant, we are of the opinion that:

1. The Company is a corporation validly existing under the laws of the Commonwealth of Massachusetts;
2. The Company is authorized to issue 12,000,000 shares of Common Stock, par value \$.01 per share, and 1,000,000 Shares of Preferred Stock, par value \$.01 per share; and
3. The Company has duly authorized the issuance of up to 1,172,500 shares being offered by the Company pursuant to the Registration Statement. The 150,000 shares being offered by the Selling Stockholders are duly authorized, and 110,000 are validly issued, fully paid and non-assessable. When issued and sold under the circumstances contemplated in the Registration Statement, the 1,172,500 shares being offered by the Company and 40,000 shares issuable upon the exercise of options being offered by the Selling Stockholders, will be validly issued, fully paid and non-assessable.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement on Form S-3 and to the reference to us under the caption "Legal Matters" in the Registration Statement.

Very truly yours,

/s/ Hutchins, Wheeler & Dittmar

HUTCHINS, WHEELER & DITTMAR
A Professional Corporation

EXHIBIT 23.1

Consent of Independent Auditors

We consent to the reference to our firm under the caption "Experts" in the Registration Statement (Form S-3 No. 333-) of Litchfield Financial Corporation for the registration of 1,322,500 shares of its common stock and to the incorporation by reference therein of our report dated January 31, 1998, with respect to the consolidated financial statements of Litchfield Financial Corporation incorporated by reference in its Annual Report (Form 10-K) for the year ended December 31, 1997, filed with the Securities and Exchange Commission.

Ernst & Young LLP

Boston, Massachusetts
May 19, 1998

End of Filing

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