MEDALLION FINANCIAL

has received approval for our Bank.

This and other key developments represent an excellent

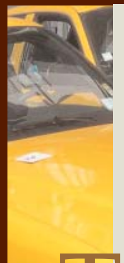
OPPORTUNITY

to GROW our lending segments.

MEDALLION FINANCIAL

2003 annual report to shareholders

nasdaq: taxi



In 1923, Leon Murstein came to the United States and began to drive a taxicab to support his family. Appreciating the long-term value of the taxi medallion, along with his willingness to put in the long hours, Leon bought his first medallion for just $10. Leon kept buying these medallions and eventually he bought a garage to support his thriving business. In 1952 Leon's son Alvin, joined the business and under their combined management, the company amassed and operated over 500 taxicabs and medallions.

Today

Medallion Financial Corp. is a growing specialty finance and advertising company that is a leader in three business sectors: MEDALLION TAXICAB LENDING, COMMERCIAL LENDING AND TAXI TOP ADVERTISING.

CORPORATE HIGHLIGHTS THAT HELPED SHAPE OUR COMPANY...

1973

In an effort to diversify the family's holdings, Alvin Murstein establishes a finance company that is used to finance the purchase and resale of taxi medallions.

1978

Medallion Funding Corp. is formally established and is organized as a Regulated Investment Company (RIC) in order to pass favorable tax treatment on to its owners.

1985

Medallion Funding begins the process of diversifying its lending portfolio and starts lending to commercial niche markets.

1996

Medallion Financial Corp., the parent company of Medallion Funding, becomes a public company on the NASDAQ exchange under the symbol TAXI. Over the next five years the Company raises more than $150 million in shareholder equity and grows from managing $215 million in assets to $650 million.

2001

Medallion Funding establishes a new $250 million credit facility with Merrill Lynch. This attractively priced and competitively structured facility allows the Company to repay all existing bank debt and initiate a growth spurt in our taxi medallion business.

> > >

2003

Medallion Financial's application for a bank charter is approved by the Utah Department of Financial Institutions and the Federal Deposit Insurance Corporation – Medallion Bank will provide the Company with a diversified, low cost source of funding for its lending operations.

full story on page 4.

Established 2003 Medallion Bank

To Our Shareholders

Alvin Murstein

Our year ended December 31, 2003 represented a year of strong recovery and the realization of a number of significant opportunities for Medallion Financial and its shareholders. After coping for over two years with a weak economy and various other tumultuous events, Medallion Financial rebounded during 2003 to report a healthy profit. More importantly, to insure our continued success, the Company took several major steps to strengthen and diversify our financing sources. These efforts culminated in the establishment of our own unique banking institution, an Industrial Loan Corporation. Medallion Bank will dramatically reduce our historic dependence on outside credit facilities and will provide competitively priced, FDIC insured funding for the Company's lending programs in the years to come.

The positive performance of the Company was further buoyed by the proposal from New York City's Mayor Bloomberg to sell 900 new taxicab medallions, 300 per year over the next three years, starting in the spring of 2004. We believe that this sale, combined with the much discussed fare increase, will have a very positive effect on the New York City taxi industry and on Medallion Financial in particular, by prompting new interest in the ownership of New York City taxi medallions. We anticipate a positive impact on the Company's taxi loan portfolio and profits during 2004.

For the full year 2003, Medallion Financial earned a profit of $2.0 million, or 11 cents per share, compared with a 2002's loss of $12.6 million, or 69 cents per share. During the year, Medallion returned to its historic growth orientation with the taxi medallion loan portfolio increasing 37 percent to $288 million from $211 million. Since our initial public offering in 1996, we have increased our taxi medallion loan portfolio at an annual compound rate of 8 percent and our commercial loan portfolio at an annual compound rate of 11 percent. Total managed assets have also grown at an annual compound rate of approximately 17 percent from $215 million at the end of 1996 to approximately $631 million at the close of 2003.

During 2003, Medallion increased its quarterly dividend payout from $0.01 per share that was paid in the second quarter, to $0.05 per share that was paid in the fourth quarter of 2003. Due to the Company's tax election this year, the $0.09 per share dividend that was paid in aggregate should qualify at a 15 percent tax rate, which is the lowest possible rate. Furthermore, during 2004 one of the Company's core objectives is the maintainence and expansion of our dividend level.

As we stated earlier, during 2003 Medallion Financial obtained regulatory approval and began operating our own Industrial Loan Corporation – Medallion Bank. Our new Bank accepts federally insured time deposits – CDs – and makes medallion and commercial middle-market loans. Over the long-term, the new Bank will help to reduce Medallion's cost of borrowing and increase the Company's lending margins. Equally as important, the Bank will also provide Medallion with our own independent source of funding in order to mitigate this risk should financial markets become volatile once again.

Over the long run, the benefits that the Bank will provide the Company will be quite significant. We expect the Bank to be profitable in its first year of operations. Medallion Financial will continue to operate as it always has, as a finance company for taxicab medallion loans and middle market commercial loans. Unlike mainstream banks, we still have the ability to render loan decisions quickly through our various lending specialties that include taxi medallion loans, asset-based lending, sub-debt lending and SBA Section 7(a) loans.

This year was not, however, just about the establishment of the Bank. During 2003 there were a number of other significant accomplishments that helped to shape our results:

>> We obtained a new $300 million, two-year credit facility agreement with Merrill Lynch, at lower rates and more flexible terms, which replaced the prior one-year, $250 million facility.

>> We paid off all of our outstanding obligations to our prior banking group and also paid off the unattractively priced senior notes in our largest operating subsidiary, Medallion Funding Corp.

>> We earned a place on the Russell 2000 Index, which is an important measurement of the financial health of publicly traded small cap companies.

>> Our customers bid for and won 80 percent of the 50 non-limited taxicab medallions that were auctioned by the City of Chicago.

Andrew Murstein

“...Medallion Bank is a reality.”

>> Our Board of Directors approved the first stock repurchase program in the history of the Company, authorizing a buyback of up to $10 million of our outstanding stock.

During the year, our investors showed their renewed confidence in Medallion Financial and that confidence was reflected in a significant increase in our share price. As of December 31st, our share price reached $9.49, which is nearly a 200 percent increase over our twelve month low. Total share price appreciation for 2003 was 143 percent based on the year's opening price of $3.90. As 2004 progresses, we believe more investors will seek and find value in stocks such as Medallion Financial which offer both growth and dividend opportunities.

To demonstrate our confidence in the Company, Medallion's board has approved the repurchase of up to $10 million of the outstanding Medallion shares. These repurchases are expected to be accretive to the Company on both an earnings and book value basis at our current share price. It is, however, very important to note that under this repurchase plan, the Company is not permitted to purchase shares from the management group and that the current management group has never sold a single share of Medallion stock.

We are clearly optimistic about Medallion's future. Taxi medallions continue to be one of the best long-term investments in the United States. Historically, New York City medallion values have increased more than 13 percent per year since 1937, compared with an 8 percent increase for the Dow Jones Industrial Average. In fact, throughout 2003 and the first quarter of 2004, New York City corporate taxi medallion prices rose more than 20 percent, from $240,000 to $300,000. We see this trend continuing during 2004, as the available driver pool has remained relatively stable. Additionally, because of the decline in interest rates, it is easier for our customers to finance the purchase of their medallions.

Medallion Financial is one of the preeminent companies in the financing of taxicab medallions. Presently, the Company has extended medallion loans to nearly 2,000 taxis in the New York, Boston/Cambridge, Chicago, Newark, Philadelphia and South Florida markets. Medallion's loan repayment experience in the medallion-financing segment remains excellent. Though the Company has provided over $1 billion in financing to taxi owners, our losses in this lending segment have been virtually zero.

Medallion Taxi Media, Inc., our taxi-top advertising subsidiary, now provides taxi-advertising space in over 20 cities throughout the US and overseas, including 2,500 cabs in New York City. Taxi Media also experienced renewed growth in 2003, which was led by retailing customers who were back in strength for the first time since the tragic events of September 11, 2001. During the year, Taxi Media obtained 22 new advertisers, including Fortune 500 companies as well as many local advertisers.

As leaders in taxi medallion and middle-market business lending, Medallion Financial has successfully endured good times and bad, wars, recessions, prosperity and periods of challenge. Our business segments have demonstrated resiliency and have proven themselves to be remarkably recession-resistant. We have benefited from our relationships with our hard-working customers, many of them new immigrants to the United States, who have prospered as a result of their tenacity and willingness to put in the hours required to drive taxis and operate other commercial enterprises. One of the many things we are looking forward to in 2004 is the closing of our recently announced acquisition of a marine and recreational vehicle lending portfolio. It is our largest acquisition to date, and will provide us with increased product diversification, geographic diversification, and increased earnings.

We express our sincere gratitude to our employees for their continued loyalty, commitment and productivity, our talented and knowledgeable board of directors for their leadership and foresight, and our shareholders for their continued and steadfast support. As we build and progress into our bright future, we look forward to working with you and hearing from you during 2004.

Alvin Murstein, *Chairman & CEO*

Andrew Murstein, *President*

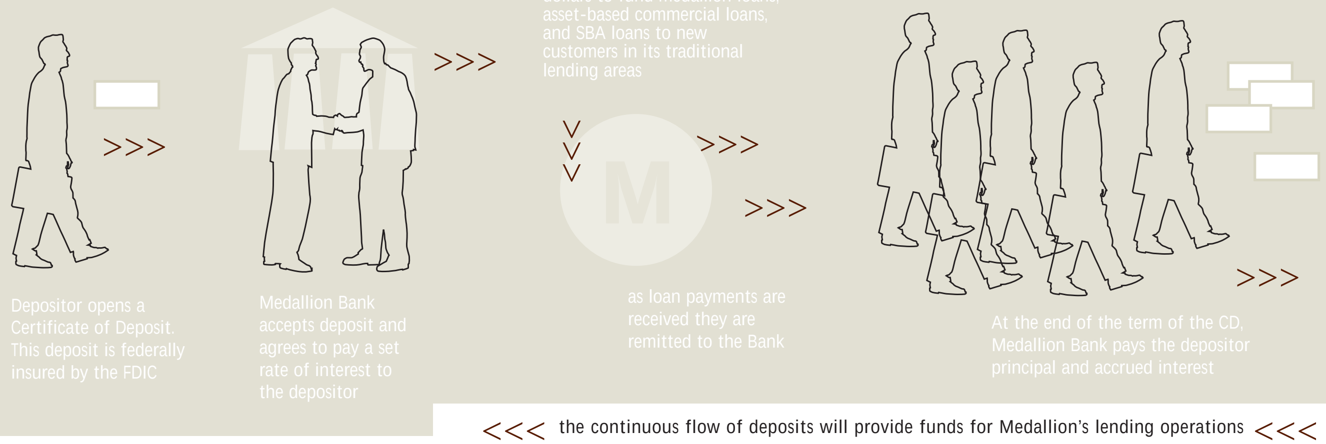
OPPORTUNITY

Medallion Bank *Established* 2003

A new, stable source of funds

For Medallion Financial Corp., 2003 could be described as the "Year of the Bank." The launch of Medallion Bank culminated almost two years worth of effort, and resulted in the creation of a bank that will be focused in the company's principal lending businesses, medallion taxicab lending and commercial loans to small and middle market businesses.

industrial loan bank concept ...



A valuable corporate building block that is expected to both lower our cost of funds and maximize Medallion Financial's profitability, Medallion Bank's application for federal deposit insurance was approved by the Federal Deposit Insurance Corporation (FDIC) during the third quarter of 2003. The Bank, which is chartered as an industrial loan corporation and headquartered in Utah, opened for business in December, and was originally capitalized with $22 million of equity.

Medallion Bank's business plan, as approved by the FDIC, anticipates the use of brokered certificates of deposit to fund our medallion loans, asset-based commercial loans, and SBA loans in the markets that are currently served by Medallion's lending subsidiaries as well as new lending opportunities. By using brokered CDs to fund its loan volume, Medallion Bank will be able to control overhead costs by eliminating the need for large-scale brick and mortar facilities, along with the typical staffing and advertising expenses that are incurred by banks when they are soliciting their deposits.

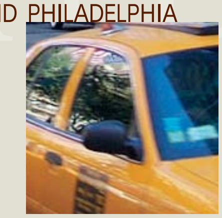
In the future, Medallion Bank will investigate other new business opportunities, where the perceived risk is greater than the actual risk that is assumed. If a decision is made to move forward with an opportunity, Medallion Bank will submit an amended business plan to FDIC for its approval.

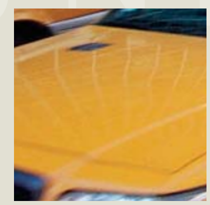
Medallion Bank is managed by a senior team of experienced banking professionals that was selected by Medallion Financial and approved by the FDIC. This team is led by a president, a chief lending officer, and a chief financial officer who have over 50 years of combined banking and lending experience. In addition, Medallion Bank is overseen by a prominent, independent and knowledgeable board of directors who will provide regular guidance to our team of executives.

Medallion Financial Corp. has long been recognized as one of the preeminent companies in the taxicab medallion financing industry. Taxicab medallions are the licenses that allow drivers to operate taxis in major cities such as New York, Boston, Chicago, Newark and Philadelphia.

OPPORTUNITY

MEDALLION'S MAJOR MARKETS: NEW YORK, BOSTON, CHICAGO, NEWARK AND PHILADELPHIA





Additionally, Medallion plays a prominent role in the financing of facilities and equipment for the management and maintenance of taxicab fleets in many markets across the country.

financing of facilities and fleet equipment too.

In New York City, medallion values increased more than 20 percent over the past 18 months.

The number of the medallions in these cities is typically regulated by an administrative body within the municipality and, in general, the supply of these medallions is limited to a set amount. As a result of these limits, the prices of medallions have increased over time. Medallion Financial is also involved in financing the equipment, facilities and other operating needs of the taxicab fleet owners in each of these cities. As in past years, the Company continues to evaluate the viability of the other taxi medallion markets that adhere to the strict guidelines that are required by our medallion loan underwriters.

The year ended December 31, 2003 was very positive for our taxicab medallion lending business. During the year the Company's primary medallion financing subsidiary, Medallion Funding Corp., expanded its medallion portfolio by almost $80 million (37 percent). This expansion was primarily fueled by increased loan exposure in the New York City and Chicago marketplaces. The Boston/Cambridge portfolio also grew at nearly the same pace, while the medallion business in Newark and Philadelphia remained level. With the $300 million Merrill Lynch credit facility in place, our cost of funds has been reduced. This lending capacity, combined with the establishment of Medallion Bank, will allow Medallion Financial to aggressively price our medallion loans should we believe it to be an appropriate opportunity. Because of this new flexibility, we expect that our medallion loan business will continue to grow rapidly and profitably during 2004.

Additionally, banks continue to be interested in participating in our medallion loans, due in part, to the strong quality of the collateral underlying each of these loans. However, with our new liquidity sources, we are now keeping a higher percentage of these loans on our own balance sheet in order to increase our profitability.

Most importantly...

the increasing value of taxicab medallions and our prudent underwriting standards have resulted in extremely low default rates and virtually no losses on the more than $1.0 billion in medallion loans we have made over the years.

Medallion Taxi Lending: Strong payment performance, minimal principal losses.

During 2004 we expect to see the infusion of new taxi medallions into the New York City market. If Mayor Bloomberg's proposal is approved and implemented as outlined, an additional 900 taxicab medallions will be issued over a three-year period. As the proposal is currently written, 300 medallions per year would be issued, raising the total number of New York City taxi medallions to 13,087. If this sale proceeds, Medallion will be actively involved in financing the purchasers. Additionally, commensurate with the increase in the number of medallions, starting in May 2004, New York City will boost taxi fares by approximately 25 percent.

Due to limited supply and strong demand for their ownership, taxi medallions remain one of the most attractive long-term investments in the United States. For example, in New York City, the value of a corporate medallion rose more than 20 percent, from $240,000 at the start of the year to more than $300,000 today. These increases continue the long tradition of rising medallion values that date back to 1937. Since 1937, medallions have increased in value an average of 13 percent per year; well above the rise in the Dow Jones Industrial Average over that same period. In addition, medallion values in other cities such as Boston/Cambridge and Miami rose 7 to 10 percent while those in Chicago, Newark and Philadelphia were steady or slightly higher.

Most important for a finance company, due to the increasing value of taxi medallions and our prudent underwriting standards, the Company has continued to benefit from extremely low default rates and minor credit losses on the more than $1.0 billion in medallion loans we have made over the years.

Small business commercial loans continued to represent a significant business segment for Medallion Financial during 2003 and will increase in magnitude in 2004.

Our small business loans are comprised of asset-based loans, sub-debt loans, and SBA Section 7(a) loans, as well as a small percentage of commercial finance loans to businesses such as restaurants, laundries and dry cleaners.

OPPORTUNITY

Highly motivated owners with tangible collateral.

Medallion has diversified its portfolio and selectively increased loan yields over the last few years.

effects of the economy have provided many opportunities

ASSET-BASED LENDING By basing loans on audited and verified assets, Medallion Business Credit, LLC (Business Credit) has profitably made loans to middle market commercial enterprises that have been overlooked by the more traditional lending community.

Medallion Business Credit was formed in 1998 as a subsidiary of Medallion Financial Corp. to provide asset-based loans to commercial businesses located in the New York, New Jersey, Pennsylvania, and Florida. This subsidiary has seen its loan portfolio grow from zero in 1998 to $34 million as of December 31, 2003. Important and noteworthy in this specialized lending segment, during 2003 Business Credit experienced zero loan losses. This portfolio performance stems from Business Credit's strict underwriting standards and prudent loan structures, which rely on the continuous monitoring of the borrower's financial condition.

As competitor banks continue to struggle with their own loan portfolio issues, Medallion Business Credit finds itself uniquely positioned to fill a critical void in the marketplace. Business Credit's loans range from $500,000 to $5.0 million and are primarily secured by a borrower's accounts receivable, inventory, and, in some cases, machinery and equipment. Based on its position and reputation in the New York and New Jersey market places, Business Credit anticipates that its outstanding loan portfolio will exceed $55-60 million over the next two year period.

SUB-DEBT LENDING Through its Medallion Capital, Inc. (MCI) subsidiary, Medallion Financial makes loans in the form of subordinated debt securities that are secured by business assets. Because of their longer-term, subordinated structure, these loans' rate of return is enhanced through the receipt of warrants or other types of equity participation.

Medallion Capital is a nationwide SBIC lender that was acquired by Medallion Financial in 1998. The company uses a "relationship based" strategy to make these loans to small and medium-sized manufacturers, distributors, service companies, and other small businesses.

The conservative lending practices of many banks and financial institutions have created many new lending opportunities for Medallion Capital, which ended the year with a managed investment portfolio of $30 million, including $6 million in new loans. These loans or "investments" typically range from $1.0 to $5.0 million and are structured as 5 to 7 year term loans.

With the volatile banking environment expected to continue, Medallion Capital expects to continue its solid growth rate during 2004.

SBA SECTION 7(a) LOANS are loans that are guaranteed against losses by the US government in an amount up to 85% of the loan, to a maximum of $750,000. A liquid and active secondary market exists for the sale and servicing of the SBA guaranteed portions of these loans, and the premiums that buyers paid for the SBA portion of these loans set a record high in 2003.

Opportunities for Medallion...

Due to the volatile banking environment, Medallion Capital looks forward to continued growth in 2004.

We believe that new niche industries with similar characteristics to our existing customer base will provide additional loan growth opportunities.

Business Lenders, LLC (BLL), is our SBA Section 7(a) lender that was acquired by Medallion Financial in 1997. BLL continues to maintain its "Preferred Lender" status in numerous SBA districts across the country and, with this authority, Business Lenders has the ability to approve loans on behalf of the SBA in each of these districts. The Preferred Lender authority permits BLL to render loan decisions very rapidly, thus enabling Business Lenders to enjoy a competitive service advantage with its potential customers. BLL also achieved the highest possible grade in its annual audit by the SBA during 2003.

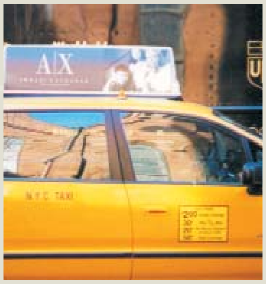
While its business is concentrated in the northeast, Business Lenders has the ability to make loans across the US and has closed loans in over 40 different states. Business Lenders, often in partnership with banks or other finance companies, lends to a variety of business types including hotels, motels, restaurants, medical and veterinary practices, car washes, gas stations, and convenience stores. Business Lenders is also increasingly working with franchisers and franchisees in the Blimpie, UPS Store, and Quiznos chains, along with nearly 50 other franchise networks. These initiatives are all contributing to the strength of BLL 's business and it is expected that they will help BLL grow its loan originations appreciably during 2004 and beyond.

COMMERCIAL LENDING Historically, other units of Medallion Financial, primarily associated with taxi medallion lending, have generated commercial loans that are used to support our taxi fleet operators. Freshstart Venture Capital Corp.(Freshstart), an SBA lender that we acquired during 2000, has been continually active in this middle market lending area and today maintains a commercial loan portfolio of $14.8 million. The commercial loans that reside in Freshstart include loans that were used to equip garage and maintenance facilities for taxi fleets. To a lesser extent, Medallion Financial continues to be involved in commercial finance lending. These loans were made to coin-operated laundries, dry cleaners, restaurants and other small business ventures. We entered this business in the 1980s and, while the performance of this portfolio has been generally positive, it has been determined that this portfolio no longer fits the strategic direction of our core lending businesses. Therefore, during 2004 this portfolio will be allowed to continue to paydown on an orderly basis.

Started in 1994 to take Medallion into a promising untapped market, Medallion Taxi Media, Inc. (Taxi Media) sells illuminated advertising space that is mounted on the roofs and, where allowed, other portions of taxicabs.

OPPORTUNITY

Taxi Top Advertising is everywhere, all the time.



illuminated taxi top displays mounted on roofs...

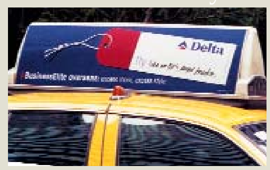
Our Taxi Media subsidiary is the dominant provider of taxitop advertising in the highly visible New York City marketplace, and over the past ten years has aggressively expanded into more than 20 metropolitan markets in the United States and overseas.

Taxi Media “acquires” the rooftop space of the cabs by entering into long-term lease arrangements with taxicab associations, fleet owners, or the individual owner/operator. Once the rooftop is acquired, Taxi Media attaches an illuminated advertising display to the vehicle. The display remains the property of Taxi Media, who continues to be responsible for the maintenance and repair of the top, as well as changing the advertising copy that is affixed to it. This additional level of responsibility helps Taxi Media ensure that the displays are functioning correctly and that the copy is always presented in the best possible manner for our advertisers.

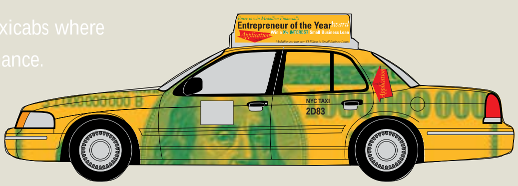
Medallion Taxi Media is focused on revenue growth...

and has expanded aggressively into 20 metropolitan markets nationwide.

Medallion is the dominant provider in New York City



...and other portions of taxicabs where permitted by local ordonnance.



Medallion continues to explore new advertising opportunities in the markets we serve.

During 2003, Taxi Media experienced a renewed level of growth. This growth was led, in large part, by retailing customers, who came back strongly for the first time since the tragic events of September 11, 2001 upended the advertising and retail markets. Based on forecasts of continued economic expansion, we expect Taxi Media's growth trend to continue in 2004 and beyond.

During 2003, Taxi Media added 22 new advertisers to its client list, including Kenneth Cole, Le Sportsac, Jenny Craig, Rado watches, and The Container Store. These new advertisers joined long-time advertisers including Old Navy, Delta and Citibank who continue to understand the value and impact of illuminated street level marketing that is provided by taxi top advertising. Fashion, airlines, wireless, media, confectioneries, retailers, and leading Broadway shows were some of our main advertiser categories in 2003 and during the upcoming year we will continue to approach new industry segments in order to broaden our client roster.

Taxi Media also participated with the New York City Taxi and Limousine Commission during 2003 in piloting advertising innovations such as the use of special fabrics and logos on passenger seats. Other innovations promoted by Taxi Media were lenticular holographic 3-D taxi tops, and we expect to see great opportunities in the upcoming year for wrapped taxis in many of Taxi Media's markets.

Medallion Financial Corp. – 2003 financial data

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Selected Financial Data

Year ended December 31, Dollars in thousands	*2003*	*2002*	*2001*	*2000*	*1999*
Statement of operations					
Investment income	**$ 26,214**	$ 33,875	$ 42,102	$ 55,610	$ 44,076
Interest expense	**12,042**	20,243	25,576	28,943	20,988
Net interest income	**14,172**	13,632	16,526	26,667	23,088
Noninterest income	**4,457**	6,121	3,592	6,288	5,983
Operating expenses	**17,174**	27,565	17,619	23,449	18,000
Net investment income (loss)[1]	**1,455**	(7,812)	2,499	9,506	11,071
Net realized gains (losses) on investments	**11,527**	(6,335)	(3,015)	(3,884)	22,545
Net changes in unrealized appreciation (depreciation) on investments[2]	**(10,923)**	1,620	(3,558)	1,737	(12,473)
Income tax provision (benefit)	**41**	85	(16)	(182)	49
Net increase (decrease) in net assets resulting from operations[3]	**$ 2,018**	$ (12,612)	$ (4,058)	$ 7,541	$ 21,094
Per share data					
Net investment income (loss)[1]	**$ 0.08**	$ (0.44)	$ 0.13	$ 0.67	$ 0.75
Realized gains (losses) on investments	**0.63**	(0.35)	(0.17)	(0.27)	1.55
Net unrealized appreciation (depreciation) on investments	**(0.60)**	0.10	(0.20)	0.12	(0.86)
Net increase (decrease) in net assets resulting from operations[3]	**$ 0.11**	$ (0.69)	$ (0.24)	$ 0.52	$ 1.44
Dividends declared per share	**$ 0.16**	$ 0.03	$ 0.38	$ 1.19	$ 1.27
Weighted average common shares outstanding					
Basic	**18,245,774**	18,242,728	16,582,179	14,536,942	14,515,660
Diluted	**18,287,952**	18,242,728	16,582,179	14,576,183	14,620,437
Balance sheet data					
Net investments	**$379,159**	$356,246	$455,595	$514,154	$489,567
Total assets	**456,494**	425,288	507,756	560,715	533,924
Total borrowed funds	**287,454**	250,767	321,845	396,126	357,204
Total liabilities	**294,378**	263,423	332,732	412,982	376,263
Total shareholders' equity	**162,116**	161,865	175,024	147,733	157,310

Selected Financial Data

Year ended December 31, Dollars in thousands	*2003*	*2002*	*2001*	*2000*	*1999*
Selected financial ratios and other data					
Return on average assets (ROA)(4)					
Net investment income (loss)	**0.34%**	(1.71%)	0.46%	1.73%	2.25%
Net increase (decrease) in net assets resulting from operations	**0.47**	(2.72)	(0.75)	1.38	4.30
Return on average equity (ROE)(5)					
Net investment income (loss)	**0.90**	(4.71)	1.48	6.23	7.10
Net increase (decrease) in net assets resulting from operations	**1.24**	(7.47)	(2.44)	4.94	13.53
Weighted average yields	**6.93%**	8.21%	8.70%	10.82%	9.91%
Weighted average cost of funds	**3.21**	4.91	5.27	5.66	7.12
Net interest margin(6)	**3.72**	3.30	3.43	5.16	2.79
Noninterest income ratio(7)	**1.20**	1.50	0.75	0.66	0.46
Operating expense ratio(8)	**4.62**	6.84	3.71	4.09	3.27
As a percentage of net investment portfolio					
Medallion loans	**76%**	59%	55%	58%	66%
Commercial loans	**23**	39	44	42	34
Equity investments	1	2	1	0	0
Investments to assets(9)	**83%**	84%	90%	92%	92%
Equity to assets(10)	**36**	38	34	26	29
Debt to equity(11)	**177**	155	184	268	227

(1) Excluding the $63,000 and $9,417,000 costs of debt extinguishment in 2003 and 2002, the $6,700,000 of charges related to Chicago Yellow, the excess servicing asset, the additional bank charges, and the writeoff of transaction costs in 2001, and the $3,140,000 of acquisition-related and other non-recurring charges in 2000, net investment income would have been $1,519,000 or $0.08, $1,605,000 or $0.09 per share, $9,199,000 or $0.55, and $12,646,000 or $0.87 in 2003, 2002, 2001, and 2000, respectively.

(2) Net changes in unrealized appreciation (depreciation) on investments represents the increase (decrease) for the year in the fair value of the Company's investments, including the results of operations for Media.

(3) Excluding the costs and charges described in note (1) and the $1,350,000 tax reserve adjustment in Media in 2001, net increase (decrease) in net assets resulting from operations would have been $2,081,000 or $0.11 per share, ($3,195,000) or ($0.18) per share, $4,692,000 or $0.18, and $10,681,000 or $0.73 in 2003, 2002, 2001, and 2000, respectively.

(4) ROA represents the net investment income (loss) or net increase (decrease) in net assets resulting from operations, divided by average total assets. Excluding the costs and charges described in note (1), ROAs based on net investment income (loss) would have been 0.35%, 0.35%, 1.71%, and 2.31% for 2003, 2002, 2001, and 2000, respectively. ROAs based on net increase (decrease) in net assets resulting from operations would have been 0.48%, (0.69%), 0.49%, and 1.95%, respectively.

(5) ROE represents the net investment income (loss) or net increase (decrease) in net assets resulting from operations divided by average shareholders' equity. Excluding the costs and charges described in note (1), ROEs based on net investment income (loss) would have been 0.94%, 0.95%, 5.53%, and 8.29% for 2003, 2002, 2001, and 2000, respectively. ROEs based on net increase (decrease) in net assets resulting from operations would have been 1.28%, (1.89%), 1.59%, and 7.00%, respectively.

(6) Net interest margin represents net interest income for the year divided by average interest earning assets. Excluding the interest income-related costs described in note (1), net interest margin would have been 4.08% for 2001.

(7) Noninterest income ratio represents noninterest income divided by the average interest earning assets. For 2001, noninterest income ratio adjusted for the excess servicing asset of $2,050,000 was 3.39%.

(8) Operating expense ratio represents operating expenses divided by average interest earning assets. Excluding the $63,000 and $9,417,000 costs of debt extinguishment in 2003 and 2002, $550,000 in 2001, and $3,140,000 in 2000 to write off transaction, acquisition-related, and other non-recurring charges, the ratios would have been 4.60%, 4.52%, 3.60%, and 4.00%, respectively.

(9) Represents net investments divided by total assets as of December 31.

(10) Represents total shareholders' equity divided by total assets as of December 31.

(11) Represents total debt (line of credit, notes payable to banks, senior secured notes, and SBA debentures) divided by total shareholders' equity as of December 31.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The information contained in this section should be read in conjunction with the Consolidated Financial Statements and Notes thereto for the years ended December 31, 2003, 2002, and 2001. In addition, this section contains forward-looking statements. These forward-looking statements are subject to the inherent uncertainties in predicting future results and conditions.

Critical Accounting Policies

The SEC has recently issued cautionary advice regarding disclosure about critical accounting policies. The SEC defines critical accounting policies as those that are both most important to the portrayal of a company's financial condition and results, and that require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about matters that are inherently uncertain and may change materially in subsequent periods. The preparation of the Company's consolidated financial statements requires estimates and assumptions that affect amounts reported and disclosed in the financial statements and related notes. Significant estimates made by the Company include valuation of loans, evaluation of the recoverability of accounts receivable and income tax assets, and the assessment of litigation and other contingencies. The Company's ability to collect accounts receivable and recover the value of its loans depends on a number of factors, including financial conditions and its ability to enforce provisions of its contracts in the event of disputes, through litigation if necessary, in accordance with generally accepted accounting principles, to record net assets and liabilities at estimated realizable values. The matters that give rise to such provisions are inherently uncertain and may require complex and subjective judgments. Although the Company believes that estimates and assumptions used in determining the recorded amounts of net assets and liabilities at December 31, 2003, are reasonable, actual results could differ materially from the estimated amounts recorded in the Company's financial statements.

General

The Company is a specialty finance company that has a leading position in originating and servicing loans that finance taxicab medallions and various types of commercial businesses. Since 1996, the year in which the Company became a public company, it has increased its medallion loan portfolio at a compound annual growth rate of 8%, and its commercial loan portfolio at a compound annual growth rate of 11%. Total assets under our management, which includes assets serviced for third party investors, were approximately $631,382,000 as of December 31, 2003, and have grown from $215,000,000 at the end of 1996, a compound annual growth rate of 17%.

The Company's loan-related earnings depend primarily on its level of net interest income. Net interest income is the difference between the total yield on the Company's loan portfolio and the average cost of borrowed funds. The Company funds its operations through a wide variety of interest-bearing sources, such as revolving bank facilities, debentures issued to and guaranteed by the SBA, and bank term debt. Net interest income fluctuates with changes in the yield on the Company's loan portfolio and changes in the cost of borrowed funds, as well as changes in the amount of interest-bearing assets and interest-bearing liabilities held by the Company. Net interest income is also affected by economic, regulatory, and competitive factors that influence interest rates, loan demand, and the availability of funding to finance the Company's lending activities. The Company, like other financial institutions, is subject to interest rate risk to the degree that its interest-earning assets reprice on a different basis than its interest-bearing liabilities.

The Company also invests in small businesses in selected industries through its subsidiary MCI. MCI's investments are typically in the form of secured debt instruments with fixed interest rates accompanied by warrants to purchase an equity interest for a nominal exercise price (such warrants are included in equity investments on the consolidated balance sheets). Interest income is earned on the debt investments.

Realized gains or losses on investments are recognized when the investments are sold or written off. The realized gains or losses represent the difference between the proceeds received from the disposition of portfolio assets, if any, and the cost of such portfolio assets. In addition, changes in unrealized appreciation or depreciation of investments are recorded and represent the net change in the estimated fair values of the portfolio assets at the end of the period as compared with their estimated fair values at the beginning of the period. Generally, realized gains (losses) on investments and changes in unrealized appreciation (depreciation) on investments are inversely related. When an appreciated asset is sold to realize a gain, a decrease in the previously recorded unrealized appreciation occurs. Conversely, when a loss previously recorded as unrealized depreciation is realized by the sale or other disposition of a depreciated portfolio asset, the reclassification of the loss from unrealized to realized causes a decrease in net unrealized depreciation and an increase in realized loss.

The Company's investment in Media, as a wholly-owned portfolio investment company, is also subject to quarterly assessments of fair value. The Company uses Media's actual results of operations as the best estimate of changes in fair value, and records the result as a component of unrealized appreciation (depreciation) on investments.

Trends in Investment Portfolio

The Company's investment income is driven by the principal amount of and yields on its investment portfolio. To identify trends in the yields, the portfolio is grouped by medallion loans, commercial loans, and equity investments. The following table illustrates the Company's investments at fair value and the portfolio yields at the dates indicated.

	December 31, 2003		December 31, 2002		December 31, 2001	
(Dollars in thousands)	*Interest Rate[(1)]*	*Principal Balance*	*Interest Rate[(1)]*	*Principal Balance*	*Interest Rate[(1)]*	*Principal Balance*
Medallion loans						
New York	**6.00%**	**$231,955**	7.41%	$174,682	8.48%	$205,598
Chicago	**6.74**	**26,543**	7.52	13,571	9.86	20,910
Boston	**7.54**	**15,490**	10.60	9,741	11.41	13,170
Newark	**9.52**	**7,744**	10.17	7,665	10.33	6,208
Cambridge	**7.20**	**4,077**	9.69	2,151	11.66	1,718
Other	**9.77**	**2,556**	10.55	3,548	11.30	6,548
Total medallion loans	**6.29**	**288,365**	7.74	211,358	8.88	254,152
Deferred loan acquisition costs		**905**		344		541
Unrealized depreciation on loans		**(1,058)**		(1,191)		(2,019)
Net medallion loans		**$288,212**		$210,511		$252,674
Commercial loans						
Secured mezzanine	**13.02%**	**$ 27,166**	12.87%	$ 33,361	12.77%	$ 36,313
Asset based	**7.23**	**18,179**	9.92	42,525	9.20	53,955
SBA Section 7(a)	**6.93**	**17,540**	7.38	32,665	7.90	56,702
Other secured commercial	**7.58**	**30,202**	9.20	36,013	10.38	60,773
Total commercial loans	**8.98**	**93,087**	9.85	144,564	9.81	207,743
Deferred loan acquisition costs		**741**		1,105		1,608
Discount on SBA Section 7(a) loans sold		**(998)**		(1,537)		(2,415)
Unrealized depreciation on loans		**(6,860)**		(5,806)		(7,607)
Net commercial loans		**$ 85,970**		$138,326		$199,329
Equity investments	**0.00%**	**$ 4,690**	0.0%	$ 1,370	0.00%	$ 1,467
Unrealized appreciation on equities		**287**		6,039		2,125
Net equity investments		**$ 4,977**		$ 7,409		$ 3,592
Investments at cost	**6.95%**	**$386,142**	8.60%	$357,292	9.30%	$463,362
Deferred loan acquisition costs		**1,646**		1,449		2,149
Unrealized appreciation on equities		**287**		6,039		2,125
Discount on SBA Section 7(a) loans sold		**(998)**		(1,537)		(2,415)
Unrealized depreciation on loans		**(7,918)**		(6,997)		(9,626)
Net investments		**$379,159**		$356,246		$455,595

(1) Represents the weighted average interest rate of the respective portfolio as of the date indicated.

Portfolio Summary

Total Portfolio Yield

The weighted average yield of the total portfolio at December 31, 2003 was 6.95%, a decrease of 165 basis points from 8.60% at December 31, 2002, which was a decrease of 70 basis points from 9.30% at December 31, 2001. The decreases primarily reflected the reductions in the general level of interest rates in the economy, evidenced by the reduction in the prime rate from 9.50% in early 2001 to 4.00% by year end 2003. The general rate decrease is partially mitigated by the sizable number of fixed-rate medallion loans which reprice at longer intervals, and the generally high yields including some at fixed rates, on the commercial portfolio. The Company expects to try to continue increasing both the percentage of commercial loans in the total portfolio and the origination of floating and adjustable-rate loans and non-New York medallion loans.

Medallion Loan Portfolio

The Company's medallion loans comprised 76% of the net portfolio of $379,159,000 at December 31, 2003, compared to 59% of $356,246,000 at December 31, 2002 and 55% of $455,595,000 at December 31, 2001. The medallion loan portfolio increased by $77,701,000 or 37% in 2003, reflecting increases in all markets, particularly in New York, and Chicago, and reversing the reductions during 2002 in most markets, especially in New York, and the effect of the reclassification of certain Chicago loans to owned medallions. In 2003, a substantial amount of the growth reflected the repurchase of participations generated in 2002, complimented by new business and the conversion of owned medallions into earning assets. In 2002, the Company declined to renew more marginable credits, slowed origination activity, and continued efforts to participate loans to third party lenders, for the purpose of conserving cash resources for debt service. The Company retained a portion of those participating loans and earns a fee for servicing the loans for the third parties. Total medallion loans serviced for third parties were $36,245,000 and $81,856,000 at December 31, 2003 and 2002.

The weighted average yield of the medallion loan portfolio at December 31, 2002 was 6.29%, a decrease of 145 basis points from 7.74% at December 31, 2002, which was down 114 basis points from 8.88% at December 31, 2001. The decreases in yield primarily reflected the generally lower level of interest rates in the economy, and the effects of borrower refinancings. At December 31, 2003, 19% of the medallion loan portfolio represented loans outside New York, compared to 17% and 19% at year-end 2002 and 2001. The Company continues to focus its efforts on originating higher yielding medallion loans outside the New York market.

Collateral Appreciation Participation Loans

During the 2000 first half, the Company originated collateral appreciation participation loans collateralized by 500 Chicago taxi medallions of $29,800,000, of which $20,850,000 was syndicated to other financial institutions. In consideration for modifications from its normal taxi medallion lending terms, the Company offered loans at higher loan-to-value ratios, and was entitled to earn additional interest income based upon any increase in the value of all $29,800,000 of the collateral. During 2003 and 2002, $0 additional interest income was recorded, compared to a decrease of $3,100,000 for 2001, which was reflected in investment income on the consolidated statements of operations and in accrued interest receivable on the consolidated balance sheets. During 2002, 400 of the medallions were returned to the Company in lieu of repayment of the loans. As a result, $8,000,000 of these loans were carried in other assets, and $950,000 were carried in medallion loans, in total representing 2% of the Company's assets. In addition, the borrower had not paid interest due of $1,265,000. Subsequently, the Company reached agreement to sell 300 of the 400 medallions to new borrowers at book value upon the transfer of the ownership of the medallion licenses by the City of Chicago, and 291 medallions for $5,820,000 had been reclassified back to medallion loans by the end of 2003, reflecting the transfers to date. The Company also reached an agreement on a term payout of the interest due with the original borrower, which is carried at $1,386,000 and is on nonaccrual at December 31, 2003. The remaining 100 returned medallions were sold to subsidiaries of MFC, including the syndicated portion, funded by notes with several banks. These medallions are being leased to fleet operators while being held for long-term appreciation in value. The remaining loans for 100 medallions were due in June 2005, and all 100 of the medallions were returned to the Company in lieu of repayment of the loans. The Company has entered into negotiations with certain fleet operators who would buy the loans for full value, similar to the transaction described above, and as of February 29, 2004, 25 of these medallions for $237,500 had been reclassified back to medallion loans. However, there can be no assurances that the balance of such refinancings will occur. As a RIC, the Company is required to mark-to-market these investments on a quarterly basis, as it does on all of its other investments. The Company believes that it has adequately calculated the fair market value of these investments in each accounting period, by relying upon information such as recent and historical medallion sale prices.

Commercial Loan Portfolio

Since 1997, and until 2002, the Company shifted the total portfolio mix toward a higher percentage of commercial loans, which historically had higher yields than medallion loans, and represented 23% of the net investment portfolio as of December 31, 2003. Commercial loans declined by $52,356,000 or 38% during 2003, continuing the trend begun in 2002. The decrease in both years reflected decreases in all business lines, particularly in the SBA Section 7(a) and asset-based lending businesses, reflecting the slowdown in originations due to liquidity constraints, and the sales or participations of certain assets, loan payoffs and maturities, and in 2003, the time lag associated with regenerating the loan pipeline once the liquidity constraints disappeared mid year. Total commercial loans serviced for third parties were $138,643,000 and $140,414,000 at December 31, 2003 and 2002.

The weighted average yield of the commercial loan portfolio at December 31, 2003 was 8.98%, a decrease of 87 basis points from 9.85% at December 31, 2002, which was up 4 basis points from 9.81% at December 31, 2001. The decrease in 2003 reflected downward repricing pressure consistent with the interest rate drops over the last few years. The increase in 2002 primarily reflected the payoff or sale of lower-yielding Section 7(a) and asset-based loans to both improve liquidity and enhance the portfolio yield. The Company continues to originate adjustable-rate and floating-rate loans tied to the prime rate to help mitigate its interest rate risk in a rising interest rate environment. At December 31, 2003, variable-rate loans represented approximately 58% of the commercial portfolio, compared to 62% and 68% at December 31, 2002 and 2001. Although this strategy initially produces a lower yield, we believe that this strategy mitigates interest rate risk by better matching our earning assets to their adjustable-rate funding sources.

Delinquency and Loan Loss Experience

We generally follow a practice of discontinuing the accrual of interest income on our loans that are in arrears as to interest payments for a period of 90 days or more. We deliver a default notice and begin foreclosure and liquidation proceedings when management determines that pursuit of these remedies is the most appropriate course of action under the circumstances. A loan is considered to be delinquent if the borrower fails to make a payment on time; however, during the course of discussion on delinquent status, we may agree to modify the payment terms of the loan with a borrower that cannot make payments in accordance with the original loan agreement. For loan modifications, the loan will only be returned to accrual status if all past due interest payments are brought fully current. Based upon the assessment of our collateral position, we evaluate most of these relationships on an "enterprise value" basis and expect to locate and install a new operator to run the business and reduce the debt. For credit that is collateral based, we anticipate that a substantial portion of the principal amount of delinquent loans would be collected upon foreclosure of such loans, if necessary. There can be no assurance, however, that the collateral securing these loans will be adequate in the event of foreclosure.

The following table shows the trend in loans 90 days or more past due as of December 31,

	2003		*2002*		*2001*	
Medallion loans	**$ 4,569,000**	**1.2%(1)**	$ 7,519,000	2.1%(1)	$12,351,000	2.7%(1)
Commercial loans						
Secured mezzanine	**7,543,000**	**2.0**	9,669,000	2.7	8,426,000	1.8
SBA Section 7(a)	**4,143,000**	**1.1**	8,326,000	2.3	12,637,000	2.7
Asset-based receivable	**—**	**0.0**	—	0.0	—	0.0
Other secured commercial	**2,842,000**	**0.7**	4,071,000	1.2	10,000,000	2.2
Total commercial loans	**14,528,000**	**3.8**	22,066,000	6.2	31,063,000	6.7
Total loans 90 days or more past due	**$19,097,000**	**5.0%**	$29,585,000	8.3%	$43,414,000	9.4%

(1) Percentage is calculated against the total loan portfolio.

In general, collection efforts over the past 18 months have substantially contributed to the sizable reduction in the overall delinquency patterns. The decrease in medallion delinquencies from a year ago primarily represents improvements as the economic fallout from the events of September 11, 2001 have receded and business for many fleet owners and individual drivers has returned to more normal patterns of delinquencies. The decrease in secured mezzanine delinquencies primarily reflected the conversion of a $3,621,000 loan into an equity position in a portfolio investment. Otherwise, the overall increase in secured mezzanine financing delinquencies primarily reflected the impact of the economy on certain concession and media properties, some of which is believed to be of temporary nature, and is not unusual given the nature of this kind of business and the current stage of the economic cycle. The continued improvement in the trend of delinquencies in the SBA Section 7(a) portfolio and the other commercial secured loan portfolio primarily reflected management's efforts to collect and restructure nonperforming loans, the satisfactory resolution of several large long-term workout credits, and the foreclosure of certain loans, transferring them to other assets. Included in the SBA Section 7(a) delinquency figures are $845,000, $2,696,000, and $5,407,000 at December 31, 2003, 2002, and 2001, which represented loans repurchased for the purpose of collecting on the SBA guarantee. The Company is actively working with each delinquent borrower to bring them current, and believes that any potential loss exposure is reflected in the Company's mark-to-market estimates on each loan. Although there can be no assurances as to changes in the trend rate, management believes that any loss exposures are properly reflected in reported asset values.

We monitor delinquent loans for possible exposure to loss, by analyzing various factors, including the value of the collateral securing the loan and the borrower's prior payment history. Under the 1940 Act, our loan portfolio must be recorded at fair value or "marked-to-market." Unlike other lending institutions, we are not permitted to establish reserves for loan losses. Instead, the valuation of our portfolio is adjusted quarterly to reflect our estimate of the current realizable value of our loan portfolio. Since no ready market exists for this portfolio, fair value is subject to the good faith determination of management and the approval of our Board of Directors. Because of the subjectivity of these estimates, there can be no assurance that, in the event of a foreclosure or the sale of portfolio loans we would be able to recover the amounts reflected on our balance sheet.

In determining the value of our portfolio, management and the Board of Directors may take into consideration various factors such as the financial condition of the borrower and the adequacy of the collateral. For example, in a period of sustained increases in market interest rates, management and the Board of Directors could decrease its valuation of the portfolio if the portfolio consists primarily of fixed-rate loans. Our valuation procedures are designed to generate values which approximate the value that would have been established by market forces and are therefore subject to uncertainties and variations from reported results. Based upon these factors, net unrealized appreciation or depreciation on investments is determined, or the amount by which our estimate of the current realizable value of our portfolio is above or below our cost basis.

The following table sets forth the changes in the Company's unrealized appreciation (depreciation) (excluding Media and foreclosed properties) on investments for the years ended December 31, 2003, 2002 and 2001.

	Loans	*Equity Investments*	*Total*
Balance, December 31, 2000	$ (6,988,790)	$ (422,577)	$(7,411,367)
Increase in unrealized			
Appreciation on investments	—	2,937,051	2,937,051
Depreciation on investments	(6,495,139)	(915,492)	(7,410,631)
Reversal of unrealized appreciation (depreciation) related to realized			
Gains on investments	(3,155)	—	(3,155)
Losses on investments	3,862,449	450,014	4,312,463
Other	(1,669)	76,256	74,587
Balance December 31, 2001(1)	(9,626,304)	2,125,252	(7,501,052)
Increase in unrealized			
Appreciation on investments	—	4,354,823	4,354,823
Depreciation on investments	(3,843,923)	(260,403)	(4,104,326)
Reversal of unrealized appreciation (depreciation) related to realized			
Gains on investments	(2,722)	—	(2,722)
Losses on investments	6,075,523	219,912	6,295,435
Other	400,000	(400,000)	—
Balance December 31, 2002(1)	(6,997,426)	6,039,584	(957,842)
Increase in unrealized			
Appreciation on investments	**—**	**1,857,627**	**1,857,627**
Depreciation on investments	**(3,223,280)**	**122,400**	**(3,100,880)**
Reversal of unrealized appreciation (depreciation) related to realized			
Gains on investments	**(11,811)**	**(7,732,566)**	**(7,744,377)**
Losses on investments	**2,314,726**	**—**	**2,314,726**
Balance December 31, 2003(1)	**$(7,917,791)**	**$ 287,045**	**$(7,630,746)**

(1) Excludes unrealized depreciation of $317,361, $128,738, and $43,093 on foreclosed properties at December 31, 2003, 2002, and 2001, respectively.

The following table presents credit-related information for the investment portfolios as of and for the years ended December 31.

	2003	*2002*	*2001*
Total loans			
Medallion loans	**$288,211,557**	$210,510,622	$252,674,634
Commercial loans	**85,970,205**	138,326,194	199,328,787
Total loans	**374,181,762**	348,836,816	452,003,421
Equity investments(1)	**4,976,763**	7,409,628	3,591,962
Net investments	**$379,158,525**	$356,246,444	$455,595,383
Net unrealized appreciation (depreciation) on investments			
Medallion loans	**$ (1,058,196)**	$ (1,191,631)	$ (2,019,155)
Commercial loans	**(6,859,595)**	(5,805,795)	(7,607,149)
Total loans	**(7,917,791)**	(6,997,426)	(9,626,304)
Equity investments	**287,045**	6,039,584	2,125,252
Total net unrealized appreciation (depreciation) on investments	**$ (7,630,746)**	$ (957,842)	$ (7,501,052)
Unrealized appreciation (depreciation) as a % of balances outstanding(2)			
Medallion loans	**(0.37%)**	(0.57%)	(0.80%)
Commercial loans	**(7.98)**	(4.20)	(3.82)
Total loans	**(2.12)**	(2.01)	(2.02)
Equity investments	**5.77**	81.51	59.17
Net investments	**(2.01)**	(0.27)	(1.65)
Realized gains (losses) on loans and equity investments			
Medallion loans	**$ (121,664)**	$ (339,437)	$ (24,869)
Commercial loans	**(2,153,677)**	(5,775,932)	(3,489,075)
Total loans	**(2,275,341)**	(6,115,369)	(3,513,944)
Equity investments	**13,801,969**	(219,912)	498,798
Total realized gains (losses) on loans and equity investments	**$ 11,526,628**	$ (6,335,281)	$ (3,015,146)
Realized gains (losses) as a % of average balances outstanding			
Medallion loans	**(0.05%)**	(0.12%)	(0.01%)
Commercial loans	**(2.13)**	(2.62)	(1.72)
Total loans	**(0.62)**	(1.22)	(0.74)
Equity investments	**274.56**	(3.46)	21.55
Net investments	**3.10**	(1.25)	(0.63)

(1) Represents common stock and warrants held as investments.

(2) Unlike other lending institutions, we are not permitted to establish reserves for loan losses. Instead, the valuation of our portfolio is adjusted quarterly to reflect estimates of the current realizable value of the loan portfolio. These percentages represent the discount or premiums that investments are carried on the books at, relative to their par value.

Equity Investments

Equity investments were 1%, 2%, and 1%, of the Company's total portfolio at December 31, 2003, 2002, and 2001. Equity investments are comprised of common stock and warrants, primarily held by MCI. The increase in equities during 2002 and 2001 was primarily a result of the unrealized appreciation recorded on a publicly traded investment which was sold during 2003.

Investment in and Loans to Media

The investments and loans to Media represent the Company's investment in its taxicab advertising business, including contributed capital, the Company's share of accumulated losses, and intercompany loans provided to Media for operating capital.

Trend in Interest Expense

The Company's interest expense is driven by the interest rates payable on its short-term credit facilities with banks, fixed-rate, long-term debentures issued to the SBA, and other short-term notes payable. The establishment of the Merrill Lynch Bank, USA (MLB) line of credit in September 2002 and its favorable renegotiation in September 2003 had the effect of dramatically reducing the Company's cost of funds. The Company's borrowing costs increased during the first nine months of 2002, until the MLB line was established, as a result of amendments to the prior credit facilities and senior secured notes. The amendments to the credit facilities and senior secured notes entered into during 2002 involved changes, and in some cases increases, to the interest rates payable thereunder. In addition, during events of default, the interest rate on the loans was increased by 2 percentage points. The effect of this was to keep borrowing costs abnormally high during a period when rates were otherwise declining. See the table below for the average cost of borrowed funds. The September 13, 2002 amendments repriced the bank loans to 5.25% for the Company and 4.75% for MFC, and repriced MFC's senior secured notes to 8.85%. In addition to the interest rate charges, $15,080,000 was incurred through December 31, 2003 for attorneys and other professional advisors, most working on behalf of the lenders, and for prepayment penalties and default interest charges, of which $63,000 and $9,417,000 was expensed as part of costs of debt extinguishment in 2003 and 2002, $2,325,000 and $1,754,000 was expensed as part of interest expense during 2003 and 2002, and $0 and $173,000 was expensed as part of professional fees in 2003 and 2002. The balance of $1,327,000 which relates solely to the Trust's new line of credit with MLB will be charged to interest expense over the remaining term of the line of credit.

During the 2002 third quarter, the Trust closed a $250,000,000 line of credit with MLB for lending on medallion loans, which was priced at LIBOR plus 1.50%, excluding fees and other costs. All of the draws on this line were paid to MFC for medallion loans purchased, and were used by MFC to repay higher priced debt with the banks and noteholders, and to purchase loans for the Trust from participants and affiliates. During the 2003 third quarter, this line was renewed and extended, and borrowings are now generally at LIBOR plus 1.25%. In addition, $20,060,000 of higher priced SBA debentures were repaid during the year, and $9,150,000 was drawn back at lower borrowing rates.

The Company's cost of funds is primarily driven by the rates paid on its various debt instruments and their relative mix, and changes in the levels of average borrowings outstanding. See Notes 4 and 5 to the consolidated financial statements for details on the terms of all outstanding debt. The Company's debentures issued to the SBA typically have terms of ten years.

The Company measures its borrowing costs as its aggregate interest expense for all of its interest-bearing liabilities divided by the average amount of such liabilities outstanding during the period. The following table shows the average borrowings and related borrowing costs for 2003, 2002, and 2001. Average balances have declined over the last two years, primarily reflecting the sale or participation of loans to other financial institutions, reductions in the level of loan originations or refinancings, and the usage of operating cash flow to raise capital for debt reductions and other corporate purposes. The decline in borrowing costs reflected the utilization of the lower cost revolving line of credit with MLB, and the trend of declining interest rates in the economy, partially offset by higher cost bank debt and related renewal expenses, and additional long-term SBA debt also at higher rates.

	Interest Expense	*Average Balance*	*Average Borrowing Costs*
December 31, 2003(1)			
Floating rate borrowings	**$ 7,862,552**	**$198,207,000**	**3.97%**
Fixed rate borrowings	**4,179,379**	**60,900,000**	**6.87**
Total	**$12,041,931**	**$259,107,000**	**4.65**
December 31, 2002			
Floating rate borrowings	$ 13,542,993	$ 199,994,000	6.77%
Fixed rate borrowings	6,700,019	81,944,000	8.18
Total	$ 20,243,012	$ 281,938,000	7.18
December 31, 2001			
Floating rate borrowings	$ 19,826,156	$ 289,050,000	6.86%
Fixed rate borrowings	5,749,422	75,749,000	7.59
Total	$ 25,575,578	$ 364,798,000	7.01

(1) Included in interest expense in 2003 was $543,000 of interest reversals. Adjusted for this amount, the floating rate borrowings average borrowing costs would have been 4.24%, and the total average borrowing costs would have been 4.86%.

The Company will continue to seek SBA funding to the extent it offers attractive rates. SBA financing subjects its recipients to limits on the amount of secured bank debt they may incur. The Company uses SBA funding to fund loans that qualify under SBIA and SBA regulations. The Company believes that financing operations primarily with short-term floating rate secured bank debt has generally decreased its interest expense, but has also increased the Company's exposure to the risk of increases in market interest rates, which the Company mitigates with certain hedging strategies. At December 31, 2003, 2002, and 2001, short-term floating rate debt constituted 80%, 72%, and 72% of total debt, respectively.

Taxicab Advertising

In addition to its finance business, the Company also conducts a taxicab rooftop advertising business through Media, which began operations in November 1994. Media's revenue is affected by the number of taxicab rooftop advertising displays currently showing advertisements, and the rate charged customers for those displays. At December 31, 2003, Media had approximately 6,700 installed displays in the United States. The Company expects that Media will continue to expand its operations by entering new markets on its own or through acquisition of existing taxicab rooftop advertising companies. Although Media is a wholly-owned subsidiary of the Company, its results of operations are not consolidated with the Company's operations because SEC regulations prohibit the consolidation of non-investment companies with investment companies.

During the last three years, Media's operations were constrained by a very difficult advertising environment that resulted from the September 11, 2001 terrorist attacks and a general economic downturn, compounded by the rapid expansion of taxicab tops inventory that occurred during 1999 and 2000. Media began to recognize losses as growth in operating expenses exceeded growth in revenue. Media is actively pursuing new sales opportunities, including expansion and upgrading of the sales force, and has taken steps to reduce operating expenses, including renegotiation of fleet payments for advertising rights to better align ongoing revenues and expenses, and to maximize cash flow from operations. Media has developed an operating plan to fund only necessary operations out of available cash flow and inter-company borrowings, and to escalate its sales activities to generate new revenues. Although there can be no assurances, Media and the Company believe that this plan will enable Media to weather this downturn in the advertising cycle and maintain operations at existing levels until such time as business returns to historical levels.

During 2003, continued negotiations with certain fleets were concluded with the result that $389,000 that Media had accrued as payments to these fleets was reversed against Media's cost of fleet services. Also, in 2003, Media settled a claim against one of its fleet operators. The result was a termination of certain contractual relations, the payment of $1,052,000 to Media, the transfer of certain assets to the fleet operator, and the forgiveness of certain liabilities Media owed the fleet operator. The net result was a $985,000 gain reflected as other income in Media's statement of operations. A portion of the proceeds from this settlement was used by Media to repay the balance of its US third-party outstanding debt. Also during 2003, Media determined that certain tops were no longer usable, and $196,000 of these tops were written off to depreciation expense.

In 2001, a substantial portion of Media's revenues arose from the realization of amounts that had been paid for and deferred from prior periods. Also, Media recorded a $1,350,000 tax provision to establish a valuation allowance against the future realization of a deferred tax asset that was recorded in prior periods relating to actual tax payments made for taxable revenue that had not been recorded for financial reporting purposes, of which $656,000 was reversed in 2002 as a result of changes in the tax laws. Media retains a net operating loss carryforward of $5,050,000 at December 31, 2003.

The Company charges Media for salaries and benefits and corporate overhead paid by the Company on Media's behalf. During 2003, these amounts owed by Media to the Company were capitalized as equity. The decrease in equipment and prepaid signing bonuses included the adjustments related to the contract settlement and the tops writeoff described above. The increase in accounts receivables and deferred revenue reflect increased sales activity to be recognized in future periods.

In July 2001, Media acquired certain assets and assumed certain liabilities of Medallion Taxi Media Japan Limited (MMJ), a taxi advertising operation similar to those operated by Media in the US, which has advertising rights on approximately 5,000 cabs servicing various cities in Japan. The terms of the agreement provide for an earn-out payment to the sellers based on average net income over the next three years. MMJ accounted for approximately 4% of Media's consolidated revenue during 2003, compared to 11% and 8% during 2002 and 2001.

Factors Affecting Net Assets

Factors that affect the Company's net assets include net realized gain or loss on investments and change in net unrealized appreciation or depreciation on investments. Net realized gain or loss on investments is the difference between the proceeds derived upon sale or foreclosure of a loan or an equity investment and the cost basis of such loan or equity investment. Change in net unrealized appreciation or depreciation on investments is the amount, if any, by which the Company's estimate of the fair value of its investment portfolio is above or below the previously established fair value or the cost basis of the portfolio. Under the 1940 Act and the SBIA, the Company's loan portfolio and other investments must be recorded at fair value.

Unlike certain lending institutions, the Company is not permitted to establish reserves for loan losses, but adjusts quarterly the valuation of the loan portfolio to reflect the Company's estimate of the current value of the total loan portfolio. Since no ready market exists for the Company's loans, fair value is subject to the good faith determination of the Company. In determining such fair value, the Company and its Board of Directors consider factors such as the financial condition of its borrowers and the adequacy of its collateral. Any change in the fair value of portfolio loans or other investments as determined by the Company is reflected in net unrealized depreciation or appreciation of investments and affects net increase in net assets resulting from operations but has no impact on net investment income or distributable income.

The Company's investment in Media, as a wholly-owned portfolio investment company, is also subject to quarterly assessments of its fair value. The Company uses Media's actual results of operations as the best estimate of changes in fair value, and records the result as a component of unrealized appreciation (depreciation) on investments.

Consolidated Results of Operations

For the Years Ended December 31, 2003 and 2002

Net increase in net assets resulting from operations was $2,018,000 or $0.11 per diluted common share, up $14,630,000 from losses of $12,612,000 or $0.69 per share in 2002, primarily reflecting reduced costs of debt extinguishment, net appreciation on investments, lower professional fees and other operating expenses, improved results at Media, and higher net interest income, partially offset by lower non-interest income. Included in both periods were costs related to the debt extinguishment efforts of the Company including prepayment penalties, default interest charges, loan fees, legal fees, and consultant costs of $63,000 for 2003 and $9,417,000 for 2002. Net increase in net assets resulting from operations excluding these costs was $2,081,000 or $0.11 per share in 2003, up $5,276,000 from a loss of $3,195,000 or $0.18 per share in 2002. Net investment income was $1,456,000 or $0.08 per share in 2003, an increase of $9,268,000 from a loss of $7,812,000 or $0.43 per share in 2002. Excluding the costs related to debt extinguishment, net investment income was $1,519,000 or $0.08 per share for 2003, a decrease of $86,000 or 5% from $1,605,000 or $0.09 per share in 2002.

Investment income was $26,214,000 in 2003, down $7,661,000 or 23% from $33,875,000 a year ago, primarily reflecting the significant drop in interest rates and, to a lesser extent, in average total investments. The yield on the investment portfolio was 6.93% in 2003, down 16% from 8.22% a year ago, reflecting the refinancing activities of the customer base to take advantage of the lower level of market interest rates prevalent in the economy compared to the recent past, and the movement towards a greater concentration in lower yielding medallion loans. Average investments outstanding were $375,491,000, down 12% from $424,541,000 a year ago, primarily reflecting the nonrenewal of certain business and sales of participation interests, so the Company could raise cash as the banks and senior noteholders required the Company to reduce the level of borrowings in the revolving lines of credit and senior notes.

Medallion loans were $288,212,000 at year end, up $77,701,000 or 37% from $210,511,000 a year ago, representing 76% of the investment portfolio compared to 59% a year ago, and were yielding 6.29%, compared to 7.74% a year ago. The increase in loans primarily reflected efforts to book new business and repurchase certain participations, primarily in the New York City, Chicago, and Boston markets, to maximize the utilization of the lower cost MLB line.

As medallion loans renewed during the year and new business was booked, they were priced at generally lower current market rates. The commercial loan portfolio was $85,970,000 at year end, compared to $138,326,000 at the prior yearend, a decrease of $52,356,000 or 38%. Commercial loans represented 23% of the investment portfolio, compared to 39% a year ago, and yielded 8.98%, compared to 9.85% a year ago, reflecting the downward repricing pressure consistent with the interest rate drops over the last few years. The decrease in commercial loans from a year ago occurred in all business lines, especially in the asset-based lending and SBA Section 7(a) businesses. The decreases in the loan portfolios were primarily a result of the banks and senior noteholders requiring the Company to reduce the level of outstandings in the revolving lines of credit and senior notes. See page 16 for a table which shows loan balances and portfolio yields by type of loan.

Interest expense was $12,042,000 in 2003, down $8,201,000 or 41% from $20,243,000 in 2002. Included in interest expense in 2003 was $2,325,000 related to the amortization of debt origination costs, partially offset by $543,000 of interest reversals compared to $2,713,000 of additional costs associated with the debt refinancings in 2002. The decrease in interest expense was primarily due to lower borrowing costs and, to a lesser extent, to lower average debt outstanding. The cost of borrowed funds was 4.65%, compared to 7.16% a year ago, a decrease of 35%, primarily attributable to the increased utilization of the lower cost MLB line compared to the higher priced bank and noteholder debt that resulted from amendments entered into late in 2001 and in 2002, that tended to inflate the 2002 cost of borrowings. Average debt outstanding was $259,107,000 in 2003, compared to $281,938,000 a year ago, a decrease of 8%, reflecting the final payout of bank and noteholder debt during 2003, and the net paydown of higher cost SBA debentures, partially offset by the increased utilization of the MLB line. Approximately 80% of the Company's debt was short-term and floating or adjustable rate at year end, compared to 72% a year ago. See page 20 for a table which shows average balances and cost of funds for the Company's funding sources.

Net interest income was $14,172,000, and the net interest margin was 3.72% in 2003, up $540,000 or 4% from $13,632,000, a net interest margin of 3.31% for 2002, reflecting the items discussed above.

Noninterest income was $4,457,000 in 2003, down $1,664,000 or 27% from $6,121,000 a year ago. Gains on the sale of loans were $856,000 in 2003, down $588,000 or 41% from $1,444,000 in 2002, which included gains from the sales of unguaranteed portions of the SBA portfolio of $202,000 in 2003 and $571,000 in 2002, representing principal sold of $4,395,000 and $16,762,000, respectively. During 2003, $7,163,000 of loans were sold under the SBA guaranteed program, compared to $13,888,000 in 2002, a decline of 48%. The decrease in gains on sale under the SBA program primarily reflected a decrease in loans sold, as well as lower market-determined premiums received on the sales in 2003. Other income, which is comprised of servicing fee income, prepayment fees, late charges, and other miscellaneous income, was $3,601,000 in 2003, down $1,077,000 or 23% from $4,678,000 a year ago. Included in 2003 was $400,000 related to reversing a portion of the servicing asset impairment reserve which was no longer required due to improved prepayment patterns in the servicing asset pools, $246,000 from deal-termination and extension fees, and $60,000 from profit-sharing income. Noninterest income in 2002 included a success fee earned on a mezzanine investment of $873,000, unusually large prepayment penalties of $127,000 for two loans, a $56,000 referral fee, and $55,000 from insurance proceeds received on a customer. Excluding those items, other income was $2,895,000 in 2003, compared to $3,567,000 in 2002, a decrease of $672,000 or 19%, generally reflecting a reduced level of fees from a smaller investment portfolio.

Operating expenses were $17,174,000 in 2003, compared to $27,565,000 in 2002, and included costs related to debt extinguishment of $63,000 in 2003 and $9,417,000 in 2002 for prepayment penalties, default interest charges, loan fees, legal fees, and consultant costs. Excluding these costs, operating expenses were $17,111,000 in 2003, down $1,037,000 or 6% from $18,148,000 in 2002. Salaries and benefits expense was $9,110,000 in the year, down $66,000 or 1% from $9,176,000 a year ago, and reflected reductions resulting from loan origination activities and from an 11% average headcount reduction, mostly offset by salary-related expenses associated with the organization costs connected with Medallion Bank and increased bonus accruals primarily related to the Select Comfort gains. Professional fees were $1,248,000 in 2003, down $1,207,000 or 49% from $2,455,000 in 2002, primarily reflecting sharply reduced legal and accounting fees in 2003 as a result of new accounting and legal counsel relationships and efficiencies, compared to substantially higher levels in 2002, which also included legal and consultant costs related to debt negotiations. Other operating expenses of $6,753,000 in 2003 were up $236,000 or 4% from $6,517,000 in 2002, and included $461,000 of tax expenses in 2003 related to minimum taxes owed due to the Company's conversion from a RIC to a tax paying entity in 2003.

Net unrealized depreciation on investments was $10,923,000 in 2003, compared to appreciation of $1,620,000 in 2002. Net unrealized depreciation on investments net of Media was $6,990,000, compared to appreciation of $6,415,000 a year ago, a decrease of $13,405,000. Unrealized appreciation (depreciation) arises when the Company makes valuation adjustments to the investment portfolio. When investments are sold or written off, any resulting realized gain (loss) is grossed up to reflect previously recorded unrealized components. As a result, movement between periods can appear distorted. The 2003 activity resulted from the reversals of unrealized appreciation primarily associated with appreciated equity investments that were sold of $7,744,000, net unrealized depreciation on loans and equities of $3,101,000, and net unrealized depreciation of $318,000 on foreclosed property, partially offset by reversals of unrealized depreciation associated with fully depreciated loans which were charged off of $2,315,000, and increases in the valuation of equity investments of $1,858,000. The 2002 activity resulted from the reversals of unrealized depreciation associated with fully depreciated loans and equity investments which were charged off of $6,295,000 and the increase in valuation of equity investments of $4,355,000, partially offset by net unrealized depreciation of $4,104,000, net unrealized depreciation of $121,000 on foreclosed property, and recoveries of $3,000.

Also included in unrealized appreciation (depreciation) on investments were the net losses of the Media division of the Company. Media generated net losses of $3,933,000 in 2003, improved by $861,000 or 18% from net losses of $4,794,000 in 2002. Included in 2003 was a $985,000 net gain from the settlement of a lawsuit with one of our fleet operators and a $389,000 reversal of accrued fleet costs which resulted from continued contract renegotiations, partially offset by a $346,000 writeoff of damaged/missing tops. Results in 2002 included a $656,000 tax benefit to reverse a portion of the $1,350,000 charge taken in 2001 to establish a reserve against the realizability of deferred tax benefits previously recorded due to changes in Media's tax situation. Adjusted for these items, Media lost $4,961,000 in 2003, compared to $5,450,000 in 2002, an improvement of $489,000 or 9%. The overall net loss position was primarily a result of decreased revenue, which continued to be impacted by the depressed advertising market, and high fixed overhead, partially offset by reduced fleet costs which declined at a slower rate than revenue as fleet contracts were renegotiated. Advertising revenues of $6,234,000 in 2003, down $255,000 or 4% from $6,489,000 in 2002, began to pick up in the later part of 2003, as evidenced by the increase in deferred revenue of $957,000 to $1,747,000. Vehicles under contract in the US were 6,700, down 2,900 or 30% from 9,600 a year ago, primarily reflecting efforts to reduce fleet costs. Media's results also included losses of $984,000 in 2003 and $751,000 in 2002, related to foreign operations (5,000 tops/racks under contract), which are suffering from the same slowdown in advertising that is hurting the US market.

The Company's net realized gain on investments was $11,527,000 in 2003, compared to losses of $6,335,000 for 2002, reflecting the above, and direct gains on sales of equity investments of $6,223,000 and by net recoveries of $36,000, partially offset by $161,000 of realized losses on foreclosed properties in both periods, compared to 2002 net chargeoffs of $40,000.

The Company's net realized/unrealized gains on investments were $604,000 in 2003, compared to a net loss of $4,715,000 for 2002, reflecting the above.

Income tax expense was $41,000 in 2003, down $44,000 or 52% from $85,000 in 2002 reflecting taxes owed on a limited partnership investment.

For the Years Ended December 31, 2002 and 2001

Net decrease in net assets decreased as a result of operations by $12,612,000 or $0.69 per diluted common share in 2002, a decrease of $8,554,000 from a loss of $4,058,000 or $0.24 in 2001, primarily reflecting the costs of debt extinguishment, the impact of a reduced level of earning assets, and greater losses in Media, partially offset by improved portfolio valuations in the 2002 periods, and the valuation assessments made in light of the September 11, 2001 terrorist attacks and a general economic downturn in 2001, as further described below.

Included in the results for 2002 were costs related to the debt extinguishment efforts of the Company including prepayment penalties, default interest charges, loan fees, legal fees, and consultant costs of $9,417,000. Included in the results for 2001 were charges of $11,500,000 primarily relating to valuation assessments the Company made in regards to the future realizability of asset values in light of the September 11, 2001 terrorist attacks and their impact on New York City and the Company's operations, compounded by the recessionary forces battering the economy, including the sharp reduction in interest rates and their effect on prepayment levels. The charges included $3,300,000 to increase unrealized depreciation to reflect the impact of the economic forces on delinquency trends, reduced payment levels, and collateral values; $3,100,000 to write down the value of collateral appreciation participation loans to reflect recent transaction activity in Chicago medallions; $2,050,000 to reflect acceleration in the deterioration in the prepayment speeds on the Company's servicing asset receivable; $1,350,000 to reserve against the risks of future realization of previously recorded deferred tax benefits related to Media's operations; $1,150,000 related to additional bank charges for new amendments to our borrowing agreements and higher pricing; and $550,000 related to the write-off of previously capitalized transaction costs that are no longer expected to close.

Net increase in net assets resulting from operations excluding the charges described above was a loss of $3,195,000 or $0.18 per share for 2002, a decrease of $10,637,000 from income of $7,442,000 or $0.45 for 2001. Net investment loss was $7,812,000 or $0.43 per share in 2002, a decrease of $10,311,000 from income of $2,499,000 or $0.15 per share in 2001. Excluding the charges described above, net investment income was $1,605,000 or $0.09 per share in 2002, a decrease of $7,679,000 from net investment income of $9,172,000 or $0.55 in 2001.

Investment income was $33,875,000 in 2002, down $8,227,000 or 20% from $42,102,000 in 2001, which reflected a $3,100,000 writedown of the value of collateral appreciation participation loans to reflect transaction activity in Chicago medallions in the 2001 third quarter. Adjusted for the writedown, 2002 investment income was down $11,327,000 or 25% from 2001. The decrease in 2002 primarily reflected the reduced volume of earning assets compared to a year ago, and lower yields on the portfolio due to the lower interest rate environment. Average total investments outstanding were $425,541,000 in 2002, compared to $489,625,000 in 2001, a decline of 35%.

The yield on the total portfolio was 8.21% in 2002, compared to 8.71% for 2001, which reflected the collateral appreciation participation loans writedown described above. Adjusted for the writedown, the portfolio yield in 2001 was 9.35%, and the decline in 2002 was 114 basis points, primarily reflecting the series of rate drops initiated by the Federal Reserve Bank beginning in early 2001, which reduced the prime lending rate by 475 basis points. Average medallion loans represented 59% of the total average investment portfolio at December 31, 2002, compared to 55% at December 31, 2001, while average commercial loans were down slightly to 41% from 45% a year ago. Yields on medallion loans were 7.74% at yearend, compared to 8.88% a year ago, and yields on commercial loans were 9.85%, compared to 9.81% for 2001. The increase in the yield on commercial loans primarily reflected the asset-based lending business allowing lower yielding credits to run off, replacing them with higher yielding new business.

Medallion loans were $210,511,000 at yearend, down $42,164,000 or 17% from $252,675,000 at the end of 2001, reflecting reductions in most markets, particularly in New York, and the reclassification of certain Chicago loans to owned medallions. The commercial loan portfolio was $138,326,000 at yearend, compared to $199,329,000 a year ago, a decrease of $61,003,000 or 31%, reflecting decreases in all business lines, especially the SBA Section 7(a) and asset-based lending businesses. In general, the decreases in the loan portfolios were a result of the banks and senior noteholders requiring the Company to reduce the level of outstandings in the revolving lines of credit and senior notes. See page 16 for a table which shows loan balances and portfolio yields by type of loan.

During the 2000 first half, the Company originated collateral appreciation participation loans collateralized by 500 Chicago taxi medallions of $29,800,000, of which $20,850,000 was syndicated to other financial institutions. In consideration for modifications from its normal taxi medallion lending terms, the Company offered loans at higher loan-to-value ratios, and is entitled to earn additional interest income based upon any increase in the value of all $29,800,000 of the collateral. During 2002, $0 additional interest income was recorded, compared to a decrease of $3,100,000 for 2001, which was reflected in investment income on the consolidated statements of operations and in accrued interest receivable on the consolidated balance sheets. During 2002, 400 of the medallions were returned to the Company in lieu of repayment of the loans. As a result, $8,000,000 of these loans was carried in other assets, and $950,000 was carried in medallion loans, in total representing 2% of the Company's assets. In addition, the borrower had not paid interest due of $1,265,000. Subsequently, the Company reached agreement to sell 300 of the 400 medallions to a new borrower at book value, upon the transfer of the licenses by the City of Chicago, and 22 medallions for $1,340,000 were reclassified back to medallion loans at yearend, reflecting the transfers to date. The Company also had a buyer in discussions for the 100 remaining returned medallions, and reached agreement on a term payout of the interest due with the original borrower, which is carried on nonaccrual, although payments continue to be made. In addition, the 100 medallions which had remained in the loan portfolio, was also on nonaccrual, although payments continue to be made.

Interest expense was $20,243,000 in 2002, down $5,332,000 or 21% from $25,575,000 in 2001, primarily reflecting lower average balances outstanding. The Company's borrowings from its bank lenders and noteholders were repriced several times during 2001 and 2002 as a result of the negotiations and amendments to the loan agreements and notes. The impact of all of this was to increase the Company's borrowing costs by $7,090,000 or 248 basis points in 2002, and by $3,592,000 or 99 basis points in 2001, compared to the rates in effect at the beginning of 2001. Excluding these amounts, interest expense in 2002 would have been $13,153,000, down $8,830,000 or 40% from $21,893,000 in 2001. In addition, during 2002, the majority of the Company's loans matured and were subject to intensive discussions concerning the ultimate liquidation of the outstandings. The costs associated with these discussions of $9,417,000 went well above and beyond the normal interest charges on the debt, and were classified to operating expenses as costs of debt extinguishment. Average debt outstanding was $281,938,000 for 2002, compared to $364,466,000 for 2001, a decrease of $82,528,000 or 23%. The Company's debt is primarily tied to floating rate indexes, which began falling during early 2001, and continued to drop until late in the year. The Company's average borrowing costs were 7.18% and 7.02% in 2002 and 2001, respectively, compared to declines in market rates of over 500 basis points during the period. Approximately 79% of the Company's debt was short-term and floating or adjustable rate in both 2002 and 2001. See page 20 for a table which shows average balances and cost of funds for the Company's funding sources.

Net interest income was $13,632,000, and the net interest margin was 3.35% for 2002, down $2,849,000 or 18% from $16,526,000 or 3.43% in 2001, primarily reflecting the decreases in yields and balances in the loan portfolio, and the $3,100,000 reduction in additional interest income on the collateral appreciation participation loans in 2001, partially offset by lower borrowing costs associated with reduced levels of borrowings at lower rates of interest. Adjusted for the impact of the additional interest on the collateral appreciation participation loans, the net interest margin was 4.08% for 2001.

Noninterest income was $6,121,000 in 2002, up $2,529,000 or 70% from $3,592,000 in 2001. The Company had gains on the sale of loans of $1,444,000 (which included gains on the sale of the guaranteed portion of SBA 7(a) loans of $979,000), down $43,000 or 3% from $1,487,000 a year ago, which only included SBA sales. During 2002, $13,888,000 of loans were sold under the SBA program, compared to $25,644,000 for 2001, a decline of 46%. The decline in gains on SBA sales reflected a decrease in loans sold, partially offset by a higher level of market-determined premiums received on the sales in the 2002 periods. Offsetting the decline in SBA guaranteed sales were sales of $11,338,000 of the unguaranteed portion of these loans held by the Company that were sold for a gain of $465,000. Other income, which is comprised of servicing fee income, prepayment fees, late charges, and other miscellaneous income, of $4,678,000 in 2002 was up $2,573,000 from $2,105,000 a year ago, primarily reflecting charges to revalue the servicing fee receivable by $2,050,000 in 2001, as a result of substantial increases in prepayments on the serviced portfolio in 2001 which resulted from the sharp decrease in interest rates, among other factors, and in 2002, from a success fee earned on a mezzanine investment of $873,000, unusually large prepayment penalties of $127,000 for two loans, a $56,000 referral fee, and $55,000 from insurance proceeds received on a customer. Excluding those charges and fees, other income of $3,567,000 was down $588,000 or 14% from $4,155,000 in 2001, primarily reflecting the impact of a lower asset base on fee income.

Operating expenses were $27,565,000 in 2002, up $9,947,000 or 56% from $17,618,000 in 2001, and included costs related to debt extinguishment of $9,417,000 for prepayment penalties, default interest charges, loan fees, legal fees, and consultant costs in 2002, and the charges described above for 2001. Excluding these costs, operating expenses were $18,148,000 in 2002, up $1,356,000 or 8% from $16,792,000 in 2001. Salaries and benefits expense for 2002 of $9,176,000 were down $245,000 or 3% from $9,421,000 in 2001, primarily reflecting an 11% decrease in average headcount. Professional fees of $2,455,000 were up $195,000 or 9% from $2,260,000 a year ago, which also reflected the writeoff of $396,000 of capitalized costs in 2001 associated with certain financing transactions which were no longer being pursued. Excluding the writeoff, the 2002 increase reflected $248,000 of increased amortization of capitalized costs associated with debt and other financial transactions, the reimbursement of $162,000 of legal fees in 2001, and increased legal and accounting expenses. Amortization of goodwill was $0 in 2002, reflecting the change in accounting rules which no longer allow for goodwill amortization, compared to $653,000 in 2001, which also included the $116,000 writeoff of all remaining goodwill related to the 1997 acquisition of BLL. Other operating expenses of $6,517,000 in 2002 were up $1,232,000 or 23% from $5,285,000 in 2001, primarily reflecting operational cleanups that occurred in 2001, which reduced operating expenses by $1,161,000, and by a higher level of collection costs on delinquent loans, and increased insurance and other office-related expenses, partially offset by lower bank charges (shown in costs of debt extinguishment in 2002) and computer expenses.

Net unrealized appreciation on investments was $1,620,000 in 2002, compared to depreciation of $3,558,000 in 2001. Net unrealized appreciation on investments net of Media was $6,414,000, compared to depreciation of $184,000 a year ago. Unrealized appreciation (depreciation) arises when the Company makes valuation adjustments to the investment portfolio. When investments are sold or written off, any resulting realized gain (loss) is grossed up to reflect previously recorded unrealized components. As a result, movement between periods can appear distorted. The 2002 activity resulted from the reversals of unrealized depreciation associated with fully depreciated loans and equity investments which were charged off of $6,295,000 and the increase in valuation of equity investments of $4,355,000, partially offset by net unrealized depreciation of $4,104,000, net unrealized depreciation on foreclosed properties of $129,000, and recoveries of $3,000. The 2001 activity resulted from unrealized depreciation of $7,411,000 reflecting the recessionary impact on borrower operations and collateral values, and by the reversals of unrealized appreciation associated with sold investments, primarily equities, of $121,000, partially offset by the reversals of unrealized depreciation associated with investments fully written off, primarily fully depreciated loans which were charged off, of $4,454,000 and the increase in valuation of investments of $2,937,000, primarily in equity securities.

Also included in unrealized appreciation (depreciation) on investments were the net losses of the Media division of the Company. Media generated a net loss of $4,794,000 in 2002, an increase of $1,419,000 compared to a net loss of $3,375,000 in 2001. Included in 2002 was a $656,000 tax benefit to reverse a portion of the $1,350,000 charge taken in 2001 to establish a reserve against the realizability of deferred tax benefits previously recorded due to changes in Media's tax situation and the greater costs associated with the rapid increase in tops under contract and cities serviced, which outpaced the increase in revenue. The reversal resulted from the change in the tax law allowing for an additional two year carryback of net operating losses. Adjusted for the above items, Media lost $5,450,000 in 2002, compared to a loss of $1,875,000 in 2001. The decline in profits in 2002 primarily reflected decreased revenue, which continued to be impacted by contract cancellations and other business retrenchments resulting from the terrorist attacks in New York City and a general economic downturn, partially offset by reduced fleet costs which declined at a slower rate than revenue as fleet contracts were renegotiated. Advertising revenues were $6,489,000 in 2002, down $6,761,000 or 51% from $13,250,000 in 2001. Revenue in 2001 also included $567,000 related to contracts that were cancelled in prior periods due to legislative changes and other factors. This revenue was recognized upon determination that Media had no further continued obligations under the contract. During 2001, Media exerted a greater effort to reduce the amount of deferred revenue by increasing capacity utilization, resulting in a drop of $4,664,000 in deferred revenue to $790,000 at December 31, 2002, compared to yearend 2000, which included an increase of $34,000 in 2002 and a reduction of $4,699,000 in 2001, including the $567,000 related to contract cancellations referred to above. To the extent that Media cannot generate additional advertising revenue to replace the deferred revenue recorded in 2001, Media's results of operations will continue to be negatively impacted. Vehicles under contract in the US were 9,600, down 600 or 6% from 10,200 a year ago, primarily reflecting efforts to reduce fleet costs. Media's results also included losses of $751,000 and $294,000 for 2002 and 2001, respectively, related to foreign operations (6,100 tops/racks under contract), which are suffering from the same slowdown in advertising that is hurting the US market.

The Company's net realized loss on investments was $6,335,000 in 2002, compared to $3,015,000 for 2001, reflecting the above and direct chargeoffs of $43,000 in 2002 and $19,000 in 2001.

The Company's net realized/unrealized loss on investments was $4,715,000 in 2002, compared to $6,574,000 for 2001, reflecting the above.

Asset/Liability Management

Interest Rate Sensitivity

The Company, like other financial institutions, is subject to interest rate risk to the extent its interest-earning assets (consisting of medallion loans and commercial loans) reprice on a different basis over time in comparison to its interest-bearing liabilities (consisting primarily of credit facilities with banks and subordinated SBA debentures).

Having interest-bearing liabilities that mature or reprice more frequently on average than assets may be beneficial in times of declining interest rates, although such an asset/liability structure may result in declining net earnings during periods of rising interest rates. Abrupt increases in market rates of interest may have an adverse impact on our earnings until we are able to originate new loans at the higher prevailing interest rates. Conversely, having interest-earning assets that mature or reprice more frequently on average than liabilities may be beneficial in times of rising interest rates, although this asset/liability structure may result in declining net earnings during periods of falling interest rates. This mismatch between maturities and interest rate sensitivities of our interest-earning assets and interest-bearing liabilities results in interest rate risk.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The effect of changes in interest rates is mitigated by regular turnover of the portfolio. Based on past experience, the Company anticipates that approximately 40% of the portfolio will mature or be prepaid each year. The Company believes that the average life of its loan portfolio varies to some extent as a function of changes in interest rates. Borrowers are more likely to exercise prepayment rights in a decreasing interest rate environment because the interest rate payable on the borrower's loan is high relative to prevailing interest rates. Conversely, borrowers are less likely to prepay in a rising interest rate environment.

In addition, the Company manages its exposure to increases in market rates of interest by incurring fixed-rate indebtedness, such as ten year subordinated SBA debentures. The Company had outstanding SBA debentures of $56,935,000 with a weighted average interest rate of 5.93%, constituting 20% of the Company's total indebtedness as of December 31, 2003. Also, portions of the floating rate debt with Banks reprice at intervals of as long as 18 months, further mitigating the immediate impact of changes in market interest rates.

A relative measure of interest rate risk can be derived from the Company's interest rate sensitivity gap. The interest rate sensitivity gap represents the difference between interest-earning assets and interest-bearing liabilities, which mature and/or reprice within specified intervals of time. The gap is considered to be positive when repriceable assets exceed repriceable liabilities, and negative when repriceable liabilities exceed repriceable assets. A relative measure of interest rate sensitivity is provided by the cumulative difference between interest sensitive assets and interest sensitive liabilities for a given time interval expressed as a percentage of total assets.

The following table presents the Company's interest rate sensitivity gap at December 31, 2003. The principal amount of medallion loans and commercial loans are assigned to the time frames in which such principal amounts are contractually obligated to be paid. The Company has not reflected an assumed annual prepayment rate for medallion loans or commercial loans in this table.

(Dollars in thousands)	*Less Than 1 Year*	*More Than 1 and Less Than 2 Years*	*More Than 2 and Less Than 3 Years*	*More Than 3 and Less Than 4 Years*	*More Than 4 and Less Than 5 Years*	*More Than 5 and Less Than 6 Years*	*Thereafter*	*Total*
Earnings assets								
Floating-rate loans	$ 38,878	$ —	$ —	$ —	$ —	$ —	$ —	$ 38,878
Adjustable-rate loans	50,911	14,268	9,043	—	—	—	—	74,222
Fixed-rate loans	31,067	41,543	101,254	19,159	58,571	7,421	9,337	268,352
Cash	47,676	—	—	—	—	—	—	47,676
Total earning assets	$168,532	$55,811	$110,297	$ 19,159	$ 58,571	$ 7,421	$ 9,337	$429,128
Liabilities								
Revolving line of credit	$222,936	$ —	$ —	$ —	$ —	$ —	$ —	$222,936
Bank loans	7,583	—	—	—	—	—	—	7,583
SBA secured notes	—	—	—	—	—	—	56,935	56,935
Total liabilities	$230,519	—					$ 56,935	$287,454
Interest rate gap	$ (61,987)	$55,811	$110,297	$ 19,159	$ 58,571	$ 7,421	$(47,598)	$141,674
Cumulative interest rate gap	$ (61,987)	$ (6,176)	$104,121	$123,280	$181,851	$189,272	$141,674	—

The Company's interest rate sensitive assets were $429,128,000 and interest rate sensitive liabilities were $287,454,000 at December 31, 2003. The one-year cumulative interest rate gap was a negative $61,987,000 or 14% of interest rate sensitive assets, compared to $24,529,013 or 6% at December 31, 2002. However, using our estimated 40% prepayment/refinancing rate for medallion loans to adjust the interest rate gap resulted in a positive gap of $19,136,000 or 4% at December 31, 2003. The Company seeks to manage interest rate risk by originating adjustable-rate loans, by incurring fixed-rate indebtedness, by evaluating appropriate derivatives, pursuing securitization opportunities, and by other options consistent with managing interest rate risk.

Interest Rate Cap Agreements

From time-to time, the Company enters into interest rate cap agreements to manage the exposure of the portfolio to increases in market interest rates by hedging a portion of its variable-rate debt against increases in interest rates. We entered into an interest rate cap agreement on a notional amount of $10,000,000 limiting our maximum LIBOR exposure on our revolving credit facility until June 24, 2002 to 7.25%. Total premiums paid under interest rate cap agreements were expensed, and there are no unamortized premiums on the balance sheet as of December 31, 2003.

Liquidity and Capital Resources

Our sources of liquidity are the revolving line of credit with MLB, unfunded commitments from the SBA for long-term debentures that are issued to or guaranteed by the SBA, loan amortization and prepayments, and participations or sales of loans to third parties. As a RIC in 2001 and earlier years, and as expected for 2004 and later years, we are required to distribute at least 90% of our investment company taxable income; consequently, we have primarily relied upon external sources of funds to finance growth. In September 2002, the Trust entered into a $250,000,000 revolving line of credit with MLB for the purpose of funding medallion loans acquired from MFC and others. At December 31, 2003, $27,064,000 of this line was available for future use, and in September 2004, this line of credit may grow to $300,000,000, at our option. In May 2001, the Company applied for and received $72,000,000 of additional funding with the SBA ($113,400,000 to be committed by the SBA in total), subject to the infusion of additional equity capital into the respective subsidiaries, and in December 2003, an additional $8,000,000 of funding was committed by the SBA, free from any additional equity capital contribution. At December 31, 2003, $23,065,000 is available under these commitments. Since SBA financing subjects its recipients to certain regulations, the Company will seek funding at the subsidiary level to maximize its benefits.

The components of our debt were as follows at December 31, 2003:

	Balance	Percentage	Rate(1)
Revolving line of credit	$222,936,000	78%	2.54%
SBA debentures	56,935,000	20	5.93
Notes payable to banks	7,583,000	2	3.87
Total outstanding debt	$287,454,000	100%	3.25

(1) Weighted average contractual rate as of December 31, 2003.

Contractual Obligation expire on or mature at various dates through March 1, 2014. The following table shows all contractual obligations at December 31, 2003.

	Payments due by period						
	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	More than 5 years	Total
Floating rate borrowings	$4,000,000	$222,936,114	$1,638,553	$1,944,390	$ —	$ —	$230,519,057
Fixed rate borrowings	—	—	—	—	—	56,935,000	56,935,000
Operating lease obligations	1,173,907	864,851	504,443	503,741	118,856	443,626	3,609,424
Total	$5,173,907	$223,800,965	$2,142,996	$2,448,131	$118,856	$57,378,626	$291,063,481

In December 2003, MB was approved for business by its regulators, and capitalized with $22,000,000 of initial capital. Although no banking activities occurred during 2003, deposit gathering began in January 2004 utilizing primarily financial brokers to raise funds. At the current required capital levels, it is expected, although there can be no guarantee, that deposits of approximately $140,000,000 could be raised to fund future loan origination activity. As of February 4, 2004, approximately $60,000,000 of deposits had been raised.

The Company values its portfolio at fair value as determined in good faith by management and approved by the Board of Directors in accordance with the Company's valuation policy. Unlike certain lending institutions, the Company is not permitted to establish reserves for loan losses. Instead, the Company must value each individual investment and portfolio loan on a quarterly basis. The Company records unrealized depreciation on investments and loans when it believes that an asset has been impaired and full collection is unlikely. The Company records unrealized appreciation on equities if it has a clear indication that the underlying portfolio company has appreciated in value and, therefore, the Company's security has also appreciated in value. Without a readily ascertainable market value, the estimated value of the Company's portfolio of investments and loans may differ significantly from the values that would be placed on the portfolio if there existed a ready market for the investments. The Company adjusts the valuation of the portfolio quarterly to reflect management's estimate of the current fair value of each investment in the portfolio. Any changes in estimated fair value are recorded in the Company's statement of operations as net unrealized appreciation (depreciation) on investments. The Company's investment in Media, as a wholly-owned portfolio investment company, is also subject to quarterly assessments of its fair value. The Company uses Media's actual results of operations as the best estimate of changes in fair value, and records the result as a component of unrealized appreciation (depreciation) on investments.

In addition, the illiquidity of our loan portfolio and investments may adversely affect our ability to dispose of loans at times when it may be advantageous for us to liquidate such portfolio or investments.

Management's Discussion and Analysis of Financial Condition and Results of Operations

In addition, if we were required to liquidate some or all of the investments in the portfolio, the proceeds of such liquidation may be significantly less than the current value of such investments. Because we borrow money to make loans and investments, our net operating income is dependent upon the difference between the rate at which we borrow funds and the rate at which we invest these funds. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our interest income. In periods of sharply rising interest rates, our cost of funds would increase, which would reduce our net operating income before net realized and unrealized gains. We use a combination of long-term and short-term borrowings and equity capital to finance our investing activities. Our long-term fixed-rate investments are financed primarily with short term floating rate debt, and to a lesser extent with long-term fixed-rate debt. We may use interest rate risk management techniques in an effort to limit our exposure to interest rate fluctuations. Such techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act. The Company has analyzed the potential impact of changes in interest rates on interest income net of interest expense. Assuming that the balance sheet were to remain constant and no actions were taken to alter the existing interest rate sensitivity, a hypothetical immediate 1% change in interest rates would have affected net increase (decrease) in assets at December 31, 2003, by approximately $313,000, on an annualized basis, compared to $789,000 and $637,000 for 2002 and 2001. Although management believes that this measure is indicative of the Company's sensitivity to interest rate changes, it does not adjust for potential changes in credit quality, size and composition of the assets on the balance sheet, and other business developments that could affect net increase (decrease) in assets in a particular quarter or for the year taken as a whole. Accordingly, no assurances can be given that actual results would not differ materially from the potential outcome simulated by this estimate.

During the 2001 second and third quarters, the Company completed an equity offering of 3,660,000 common shares at $11 per share raising over $40,000,000 of additional capital. The Company continues to work with investment banking firms and other financial intermediaries to investigate the viability of a number of other financing options which include, among others, the sale or spin off certain assets or divisions, the development of a securitization conduit program, and other independent financing for certain subsidiaries or asset classes. These financing options would also provide additional sources of funds for both external expansion and continuation of internal growth.

The following table illustrates sources of available funds for the Company and each of the subsidiaries, and amounts outstanding under credit facilities and their respective end of period weighted average interest rates at December 31, 2003.

(Dollars in thousands)	*The Company*	*MFC*	*BLL*	*MCI*	*MBC*	*FSVC*	*MB*	*Total*
Cash	$ 589	$ 7,656	$503	$ 8,517	$2,251	$ 6,151	$22,009	$ 47,676
Bank loans[1]								
Amounts outstanding	4,000	3,583						7,583
Average interest rate	4.25%	3.45%						3.87%
Maturity	5/04	6/07						5/04–6/07
Lines of Credit[2]		$250,000						$250,000
Amounts undisbursed		27,064						27,064
Amounts outstanding		222,936						222,936
Average interest rate		2.54%						2.54%
Maturity		9/05						9/05
SBA debentures[3]				36,000		44,000		$ 80,000
Amounts undisbursed				15,000		8,065		23,065
Amounts outstanding				21,000		35,935		56,935
Average interest rate				5.67%		6.08%		5.93%
Maturity				9/11–3/14		9/11–3/13		9/11–3/14
Total cash and remaining amounts undisbursed under credit facilities	$ 589	$ 34,720	$503	$23,517	$2,251	$14,216	$22,009	$ 97,805
Total debt outstanding	$4,000	$226,519	$ —	$21,000	$ —	$35,935	$ —	$287,454

(1) On April 30, the Company entered into a $7,000,000 note with Atlantic Bank of New York (AB) secured by certain loans of MBC. On June 30, 2003, a subsidiary of MFC entered into a $2,000,000 note with Banco Popular secured by certain owned operating medallions. On July 11, 2003, other MFC subsidiaries borrowed an additional $1,700,000, split between Israel Discount Bank and AB, secured by the balance of the owned operating medallions. Payments made do not increase amounts to be borrowed.

(2) Line of credit with Merrill Lynch for medallion lending. The committed amount can grow to $300,000,000 in September 2004.

(3) $15,065,000 of the SBA approved commitment may be drawn down through May 2006, upon submission of a request for funding by the Company and its subsequent acceptance by the SBA. FSVC applied for, and received, an additional commitment of $8,000,000, which may be drawn down through December 2008.

Loan amortization, prepayments, and sales also provide a source of funding for the Company. Prepayments on loans are influenced significantly by general interest rates, medallion loan market rates, economic conditions, and competition. Loan sales are a major focus of the SBA Section 7(a) loan program conducted by BLL, which is primarily set up to originate and sell loans. Increases in SBA Section 7(a) loan balances in any given period generally reflect timing differences in selling and closing transactions.

Furthermore, the Company was approved to receive Federal deposit insurance from the FDIC insurance on its deposits in its industrial loan corporation subsidiary to be headquartered in Salt Lake City, Utah. MB was capitalized and began operations, including the soliciting of deposits, in December 2003. No deposits were received until January 2004. The Company believes that its credit facilities with MLB and the SBA, and cash flow from operations (after distributions to shareholders), and deposits generated at MB will be adequate to fund the continuing operations of the Company's loan portfolio and advertising business.

Media funds its operations through internal cash flow and historically through intercompany debt, and during 2003 such debt was contributed to Media as equity. Media is not a RIC and, therefore, is able to retain earnings to finance growth. Media has developed an operating plan to fund only necessary operations out of available cash flow and intercompany borrowings, and to escalate its sales activities to generate new revenues. Although there can be no assurances, Media and the Company believe that this plan will enable Media to weather this downturn in the advertising cycle and maintain operations at existing levels until such time as business returns to historical levels.

Recently Issued Accounting Standards

In December 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46 (revised), "Consolidation of Variable Interest Entities" (FIN 46R), an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements". Variable interest entities, some of which were formerly referred to as special purpose entities, are generally entities for which their other equity investors (1) do not provide significant financial resources for the entity to sustain its activities, (2) do not have voting rights or (3) have voting rights that are disproportionately high compared with their economic interests. Under FIN 46R, variable interest entities must be consolidated by the primary beneficiary. The primary beneficiary is generally defined as having the majority of the risks and rewards of ownership arising from the variable interest entity. FIN 46R also requires certain disclosures if a significant variable interest is held but not required to be consolidated. The effective date of revised Interpretation No. 46 varies but is effective for us commencing March 31, 2004. The Company does not expect this standard to have a material impact on its consolidated financial condition or results of operations.

In May 2003, the FASB issued SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS No. 150"). This statement requires that an issuer classify financial instruments that are within its scope as a liability. Many of those instruments were classified as equity under previous guidance. Most of the guidance in SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not expect this standard to have a material impact on its consolidated financial condition or results of operations.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS No. 149). The provisions of SFAS No.149 that relate to SFAS No. 133 and No. 138 implementation issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. In addition, provisions of SFAS No. 149 which relate to forward purchases or sales of when-issued securities or other securities that do not yet exist, should be applied to both existing contracts and new contracts entered into after June 30, 2003. The changes in SFAS No. 149 improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. In particular, SFAS No. 149 (1) clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative discussed in paragraph 6(b) of SFAS No. 133 and No. 138, (2) clarifies when a derivative contains a financing component, (3) amends the definition of an underlying financing component to conform it to language used in FIN 45, and (4) amends certain other existing pronouncements. Those changes will result in more consistent reporting of contracts as either derivatives or hybrid instruments. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, except as stated above and for hedging relationships designated after June 30, 2003. In addition, except as stated above, all provisions of SFAS No.149 should be applied prospectively. The Company does not expect this standard to have a material impact on its consolidated financial condition or results of operations.

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—An Amendment of FASB Statement No. 123," which provides optional transition guidance for those companies electing to voluntarily adopt the accounting provisions of SFAS No. 123. In addition, the statement mandates certain interim disclosures that are incremental to those required by Statement No. 123. The Company will continue to account for stock-based compensation in accordance with APB No. 25. As such, the Company does not expect this standard to have a material impact on its consolidated financial position or results of operations. The Company adopted the disclosure-only provisions of SFAS No. 148 at December 31, 2002.

Important Information Relating to Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in such statements. In connection with certain forward-looking statements contained in this Form 10-K and those that may be made in the future by or on behalf of the Company, the Company notes that there are various factors that could cause actual results to differ materially from those set forth in any such forward-looking statements. The forward-looking statements contained in this Form 10-K were prepared by management and are qualified by, and subject to, significant business, economic, competitive, regulatory and other uncertainties and contingencies, all of which are difficult or impossible to predict and many of which are beyond the control of the Company. Accordingly, there can be no assurance that the forward-looking statements contained in this Form 10-K will be realized or that actual results will not be significantly higher or lower. The statements have not been audited by, examined by, compiled by or subjected to agreed-upon procedures by independent accountants, and no third-party has independently verified or reviewed such statements. Readers of this Form 10-K should consider these facts in evaluating the information contained herein. In addition, the business and operations of the Company are subject to substantial risks which increase the uncertainty inherent in the forward-looking statements contained in this Form 10-K. The inclusion of the forward-looking statements contained in this Form 10-K should not be regarded as a representation by the Company or any other person that the forward-looking statements contained in this Form 10-K will be achieved. In light of the foregoing, readers of this Form 10-K are cautioned not to place undue reliance on the forward-looking statements contained herein. These risks and others that are detailed in this Form 10-K and other documents that the Company files from time to time with the Securities and Exchange Commission, including quarterly reports on Form 10-Q and any current reports on Form 8-K must be considered by any investor or potential investor in the Company.

Consolidated Statements of Operations

Year Ended December 31,	*2003*	*2002*	*2001*
Interest and dividend income on investments	**$ 25,794,577**	$ 33,485,320	$41,394,312
Interest income on short-term investments	**223,178**	389,967	707,331
Medallion lease income	**196,610**	—	—
Total investment income	**26,214,365**	33,875,287	42,101,643
Interest on floating rate borrowings	**7,862,552**	13,542,993	19,826,156
Interest on fixed rate borrowings	**4,179,379**	6,700,019	5,749,422
Total interest expense	**12,041,931**	20,243,012	25,575,578
Net interest income	**14,172,434**	13,632,275	16,526,065
Gain on sales of loans	**856,083**	1,443,735	1,486,612
Other income	**3,600,783**	4,677,678	2,105,158
Total noninterest income	**4,456,866**	6,121,413	3,591,770
Salaries and benefits	**9,110,058**	9,176,312	9,420,716
Professional fees	**1,247,687**	2,454,962	2,259,901
Cost of debt extinguishment	**63,302**	9,417,314	—
Amortization of goodwill	**—**	—	652,735
Other operating expenses	**6,752,616**	6,516,857	5,285,580
Total operating expenses	**17,173,663**	27,565,445	17,618,932
Net investment income (loss) before income taxes	**1,455,637**	(7,811,757)	2,498,903
Income tax provision (benefit)	**41,149**	84,656	(16,485)
Net investment income (loss) after income taxes	**1,414,488**	(7,896,413)	2,515,388
Net realized gains (losses) on investments	**11,526,628**	(6,335,281)	(3,015,146)
Net change in unrealized appreciation (depreciation) on investments	**(10,923,093)**	1,620,078	(3,558,525)
Net realized/ unrealized gain (loss) on investments	**603,535**	$ (4,715,203)	(6,573,671)
Net increase (decrease) in net assets resulting from operations	**$ 2,018,023**	$(12,611,616)	$ (4,058,283)
Net increase (decrease) in net assets resulting from operations per common share			
Basic	**$ 0.11**	$ (0.69)	$ (0.24)
Diluted	**0.11**	(0.69)	(0.24)
Dividends declared per share	**$ 0.16**	$ 0.03	$ 0.38
Weighted average common shares outstanding			
Basic	**18,245,774**	18,242,728	16,582,179
Diluted	**18,287,952**	18,242,728	16,582,179

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Balance Sheets

December 31,	*2003*	*2002*
Assets		
Medallion loans, at fair value	**$288,211,557**	$210,510,622
Commercial loans, at fair value	**85,970,205**	138,326,194
Equity investments, at fair value	**4,976,763**	7,409,628
Net investments ($251,880,289 at December 31, 2003 and $244,370,423 at December 31, 2002 pledged as collateral under borrowing arrangements)	**379,158,525**	356,246,444
Investment in and loans to Media	**3,614,485**	4,505,356
Total investments	**382,773,010**	360,751,800
Cash ($605,000 in 2003 and $1,050,000 in 2002 restricted as to use by lender)	**47,675,537**	35,369,285
Accrued interest receivable	**1,727,719**	2,546,101
Servicing fee receivable	**2,663,468**	2,838,417
Fixed assets, net	**1,351,887**	1,551,781
Goodwill, net	**5,007,583**	5,007,583
Other assets, net	**15,295,253**	17,222,825
Total assets	**$456,494,457**	$425,287,792
Liabilities		
Accounts payable and accrued expenses	**$ 5,726,830**	$ 7,066,118
Accrued interest payable	**1,197,248**	5,589,754
Floating rate borrowings	**230,519,057**	180,608,488
Fixed rate borrowings	**56,935,000**	70,158,753
Total liabilities	**$294,378,135**	263,423,113
Shareholders' equity		
Preferred Stock (1,000,000 shares of $0.01 par value stock authorized—none outstanding)	**—**	—
Common stock (50,000,000 shares of $0.01 par value stock authorized)	**182,524**	182,421
Treasury stock at cost, 30,934 in 2003 and 20,118 in 2002	**(431,584)**	(331,640)
Capital in excess of par value	**173,831,049**	173,781,362
Cumulative effect of foreign currency translation	**(72,861)**	—
Accumulated net investment losses	**(11,392,806)**	(11,767,464)
Total shareholders' equity	**162,116,322**	161,864,679
Total liabilities and shareholders' equity	**$456,494,457**	$425,287,792
Number of common shares outstanding	**18,242,178**	18,242,728
Net asset value per share	**$ 8.89**	$ 8.87

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

	Common Stock		Treasury	Stock	Capital in Excess of Par Value	Cumulative Effect of Foreign Currency Translation	Accumulated Net Investment Income (Losses)
	# of Shares	Amount	# of Shares	Amount			
Balance at December 31, 2000	14,546,637	$ 145,467	(20,118)	(331,640)	$ 146,711,017	$ —	$ 1,208,207
Exercise of stock options	34,000	340	—	—	373,660	—	—
Issuance of common stock, net	3,661,398	36,614	—	—	37,364,863	—	—
Net decrease in net assets resulting from operations	—	—	—	—	—	—	(4,058,283)
Dividends declared on common stock ($0.38 per share)	—	—	—	—	—	—	(6,426,668)
SOP 93-2 reclassification	—	—	—	—	368,359	—	(368,359)
Balance at December 31, 2001	18,242,035	182,421	(20,118)	(331,640)	184,817,899	—	(9,645,103)
Net decrease in net assets resulting from operations	—	—	—	—	—	—	(12,611,616)
Dividends declared on common stock ($0.03 per share)	—	—	—	—	—	—	(547,282)
Other 693	—	—	—	—	—	—	
SOP 93-2 reclassification	—	—	—	—	(11,036,537)	—	11,036,537
Balance at December 31, 2002	18,242,728	182,421	(20,118)	(331,640)	173,781,362	—	(11,767,464)
Exercise of stock options	10,266	103	—	49,687	—	—	
Net increase in net assets resulting from operations	—	—	—	—	—	—	2,018,023
Dividends declared on common stock ($0.09 per share)	—	—	—	—	—	—	(1,643,365)
Treasury stock acquired	—	—	(10,816)	(99,944)		—	—
Cumulative effect of foreign currency translation	—	—	—	—	—	(72,861)	—
Balance at December 31, 2003	**18,252,994**	**$182,524**	**(30,934)**	**$(431,584)**	**$173,831,049**	**$(72,861)**	**$(11,392,806)**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

Year Ended December 31,	*2003*	*2002*	*2001*
Cash Flows from Operating Activities			
Net increase (decrease) in net assets resulting from operations	**$ 2,018,023**	$ (12,611,616)	$ (4,058,283)
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by (used for) operating activities:			
Depreciation and amortization	**643,809**	595,176	610,447
Amortization of goodwill	**—**	—	652,735
Amortization of origination costs	**1,376,641**	1,529,200	1,595,237
Increase in net unrealized (appreciation) depreciation on investments	**6,990,265**	(6,414,472)	183,570
Net realized (gains) losses on investments	**(11,526,628)**	6,335,281	3,015,146
Net realized gains on sales of loans	**(856,083)**	(1,443,735)	(1,486,612)
Increase in unrealized depreciation on Media	**3,932,828**	4,794,394	3,374,955
(Increase) decrease in valuation of collateral appreciation participation | loans and servicing fee receivable	**(400,000)**	—	5,157,750
(Increase) decrease in accrued interest receivable	**960,570**	1,449,368	1,611,992
(Increase) decrease in servicing fee receivable	**574,949**	731,182	999,687
(Increase) decrease in other assets, net	**(1,067,518)**	(2,282,983)	419,754
Decrease in accounts payable and accrued expenses	**(1,481,477)**	(39,192)	(618,504)
Increase (decrease) in accrued interest payable	**(4,392,505)**	3,451,514	(1,749,349)
Net cash provided by (used for) operating activities	**(3,227,126)**	(3,905,883)	9,708,525
Cash Flows from Investing Activities			
Investments originated	**(248,225,892)**	(158,060,115)	(134,753,029)
Proceeds from principal receipts, sales, and maturities of investments	**232,171,193**	248,049,659	190,003,911
Investments in and loans to Media, net	**(3,103,874)**	(2,641,698)	(8,176,586)
Capital expenditures	**(301,346)**	(213,039)	(493,556)
Net cash provided by (used for) investing activities	**(19,459,919)**	87,134,807	46,580,740
Cash Flows from Financing Activities			
Proceeds from floating rate borrowings	**193,216,383**	150,718,194	46,830,000
Repayments of floating rate borrowings	**(143,305,813)**	(203,109,706)	(143,596,269)
Proceeds from the issuance of fixed rate borrowings	**9,150,000**	25,300,000	22,485,000
Repayments of fixed rate borrowings	**(22,373,753)**	(43,986,247)	—
Proceeds from exercise of stock options	**49,790**	—	374,000
Payments of declared dividends	**(1,643,366)**	(2,190,938)	(10,027,293)
Purchase of treasury stock at cost	**(99,944)**	—	—
Proceeds from issuance of common stock	**—**	—	37,401,477
Net cash provided by (used for) financing activities	**34,993,297**	(73,268,697)	(46,533,085)
Net Increase in Cash	**12,306,252**	9,960,227	9,756,180
Cash, beginning of year	**35,369,285**	25,409,058	15,652,878
Cash, end of year	**$ 47,675,537**	$ 35,369,285	$ 25,409,058
Supplemental Information			
Cash paid during the year for interest	**$ 13,745,950**	$ 18,700,933	$ 26,996,009
Cash paid during the year for income taxes	**41,149**	38,840	—
Non-cash investing activities-net transfers to (from) other assets	**(2,362,534)**	9,353,121	—

The accompanying notes are in integral part of these consolidated financial statements.

Note 1: Organization of Medallion Financial Corp. and Its Subsidiaries

Medallion Financial Corp. (the Company) is a closed-end management investment company organized as a Delaware corporation. The Company has elected to be regulated as a Business Development Company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). The Company conducts its business through various wholly-owned subsidiaries including its primary operating company, Medallion Funding Corp. (MFC), a Small Business Investment Company (SBIC) which originates and services taxicab medallion and commercial loans. As an adjunct to the Company's taxi medallion finance business, the Company operates a taxicab rooftop advertising business, Medallion Taxi Media, Inc. (Media), which includes an operating subsidiary in Japan. (See Note 3)

The Company also conducts business through Business Lenders, LLC (BLL), licensed under the Small Business Administration (SBA) Section 7(a) program; Medallion Business Credit, LLC (MBC), an originator of loans to small businesses for the purpose of financing inventory and receivables; and Medallion Capital, Inc. (MCI), an SBIC which conducts a mezzanine financing business, Freshstart Venture Capital Corp. (FSVC), an SBIC which originates and services taxicab medallion and commercial loans; and Medallion Bank (MB), licensed by the Federal Deposit Insurance Corporation (FDIC) to originate medallion and commercial loans, to raise deposits, and to conduct other banking activities. MFC, MCI, and FSVC, as SBICs, are regulated and financed in part by the SBA.

MB was capitalized on December 16, 2003, with $22,000,000 from the Company. On December 22, 2003, upon satisfaction of the conditions set forth in the FDIC's order of October 2, 2003 approving MB's application for federal deposit insurance, the FDIC certified that the deposits of each depositor in MB were insured to the maximum amount provided by the Federal Deposit Insurance Act and MB opened for business. MB is subject to competition from other financial institutions and to the regulations of certain federal and state agencies and undergoes examinations by both agencies.

MB is a 100% owned subsidiary of the Company and was formed for the primary purpose of originating commercial loans in three categories: 1) loans to finance the purchase of taxi medallions (licenses), 2) asset-based commercial loans and 3) SBA 7(a) loans. The loans will be marketed and serviced by MB's affiliates who have extensive prior experience in these asset groups. Additionally, MB plans to issue certificates of deposit beginning in January 2004, which will be primarily brokered deposits, to purchase medallion and asset-based loans from the Company.

In June 2003, MFC established several wholly-owned subsidiaries which, along with an existing subsidiary (together, Medallion Chicago), purchased certain City of Chicago taxicab medallions which are leased to fleet operators while being held for long-term appreciation in value.

In September 2002, MFC established a wholly-owned subsidiary, Taxi Medallion Loan Trust I (Trust), for the purpose of owning medallion loans originated by MFC or others. The Trust is a separate legal and corporate entity with its own creditors who, in any liquidation of the Trust, will be entitled to be satisfied out of the Trust's assets prior to any value in the Trust becoming available to the Trust's equity holders. The assets of the Trust are not available to pay obligations of its affiliates or any other party, and the assets of affiliates or any other party are not available to pay obligations of the Trust. The Trust's loans are serviced by MFC.

Note 2: Summary of Significant Accounting Policies

Use of Estimates

The accounting and reporting policies of the Company conform with generally accepted accounting principles and general practices in the investment company industry. The preparation of financial statements in conformity with generally accepted accounting principles in the US requires the Company to make estimates and assumptions that affect the reporting and disclosure of assets and liabilities, including those that are of a contingent nature, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, except for Media. All significant intercompany transactions, balances, and profits have been eliminated in consolidation. As a non-investment company, Media cannot be consolidated with the Company, which is an investment company under the 1940 Act. See Note 3 for the presentation of financial information for Media.

Investment Valuation

The Company's loans, net of participations and any unearned discount, are considered investments under the 1940 Act and are recorded at fair value. Loans are valued at cost less unrealized appreciation (depreciation). Since no ready market exists for these loans, the fair value is determined in good faith by management, and approved by the Board of Directors. In determining the fair value, the Company and Board of Directors consider factors such as the financial condition of the borrower, the adequacy of the collateral, individual credit risks, historical loss experience, and the relationships between current and projected market rates and portfolio rates of interest and maturities.

Investments in equity securities and stock warrants are recorded at fair value, represented as cost, plus or minus unrealized appreciation or depreciation, respectively. The fair value of investments that have no ready market, are determined in good faith by management, and approved by the Board of Directors, based upon assets and revenues of the underlying investee companies as well as general market trends for businesses in the same industry. Included in equity investments at December 31, 2003 are marketable and non-marketable securities of approximately $648,000 and $4,328,000, respectively. At December 31, 2002, the respective balances were approximately $592,000 and $6,818,000. Because of the inherent uncertainty of valuations, management's estimates of the values of the investments may differ significantly from the values that would have been used had a ready market for the investments existed and the differences could be material.

The Company's investments consist primarily of long-term loans to persons defined by SBA regulations as socially or economically disadvantaged, or to entities that are at least 50% owned by such persons. Approximately 76% and 59% of the Company's investment portfolio at December 31, 2003 and 2002 had arisen in connection with the financing of taxicab medallions, taxicabs, and related assets, of which 81% and 83% were in New York City. These loans are secured by the medallions, taxicabs, and related assets, and are personally guaranteed by the borrowers, or in the case of corporations, are generally guaranteed personally by the owners. A portion of the Company's portfolio represents loans to various commercial enterprises, in a variety of industries, including wholesaling, food services, financing, broadcasting, communications, real estate and lodging. These loans are made primarily in the metropolitan New York City area. The remaining portion of the Company's portfolio is from the origination of loans guaranteed by the SBA under its Section 7(a) program, less the sale of the guaranteed portion of those loans. Funding for the Section 7(a) program depends on annual appropriations by the US Congress.

Collateral Appreciation Participation Loans

During the 2000 first half, the Company originated collateral appreciation participation loans collateralized by 500 Chicago taxi medallions of $29,800,000, of which $20,850,000 was syndicated to other financial institutions. In consideration for modifications from its normal taxi medallion lending terms, the Company offered loans at higher loan-to-value ratios, and was entitled to earn additional interest income based upon any increase in the value of all $29,800,000 of the collateral. During 2003 and 2002, $0 additional interest income was recorded, compared to a decrease of $3,100,000 for 2001, which was reflected in investment income on the consolidated statements of operations and in accrued interest receivable on the consolidated balance sheets. During 2002, 400 of the medallions were returned to the Company in lieu of repayment of the loans. As a result, $8,000,000 of these loans were carried in other assets, and $950,000 was carried in medallion loans, in total representing 2% of the Company's assets. In addition, the borrower had not paid interest due of $1,265,000. Subsequently, the Company reached agreement to sell 300 of the 400 medallions to new borrowers at book value upon the transfer of the ownership of the medallion licenses by the City of Chicago, and 291 medallions for $5,820,000 had been reclassified back to medallion loans by the end of 2003, reflecting the transfers to date. The Company also reached an agreement on a term payout of the interest due with the original borrower, which is carried at $1,386,000 and is on nonaccrual at December 31, 2003. The remaining 100 returned medallions were sold to subsidiaries of MFC, including the syndicated portion, funded by notes with several banks. These medallions are being leased to fleet operators while being held for long-term appreciation in value. The remaining loans for 100 medallions were due in June 2005, and all 100 of the medallions were returned to the Company in lieu of repayment of the loans. The Company has entered into negotiations with certain fleet operators who would buy the loans for full value, similar to the transaction described above, and as of February 29, 2004, 25 of these medallions for $237,500 had been reclassified back to medallion loans. However, there can be no assurances that the balance of such refinancings will occur. As a RIC, the Company is required to mark-to-market these investments on a quarterly basis, as it does on all of its other investments. The Company believes that it has adequately calculated the fair market value of these investments in each accounting period, by relying upon information such as recent and historical medallion sale prices.

Investment Transactions and Income Recognition

Loan origination fees and certain direct origination costs are deferred and recognized as an adjustment to the yield of the related loans. At December 31, 2003 and 2002, net origination costs totaled approximately $1,673,000 and $1,449,000. Amortization expense for the years ended December 31, 2003, 2002, and 2001 was approximately $1,377,000, $1,529,000 and $1,595,000.

Interest income is recorded on the accrual basis. Loans are placed on nonaccrual status, and all uncollected accrued interest is reversed, when there is doubt as to the collectibility of interest or principal, or if loans are 90 days or more past due, unless management has determined that they are both well-secured and in the process of collection. Interest income on nonaccrual loans is recognized when cash is received. At December 31, 2003, 2002, and 2001, total nonaccrual loans were approximately $26,769,000, $24,208,000, and $35,782,000. The amount of interest income on nonaccrual loans that would have been recognized if the loans had been paying in accordance with their original terms was approximately $3,856,000, $4,011,000, and $5,601,000 as of December 31, 2003, 2002, and 2001, of which $2,310,000, $2,242,000, and $3,737,000 would have been recognized in the years ended December 31, 2003, 2002, and 2001.

Loan Sales and Servicing Fee Receivable

The Company currently accounts for its sales of loans in accordance with Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a Replacement of FASB Statement No. 125" (SFAS 140). SFAS 140 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. The principal portion of loans serviced for others by the Company was approximately $174,887,000 and $222,269,000 at December 31, 2003 and 2002.

Gain or losses on loan sales are primarily attributable to the sale of commercial loans which have been at least partially guaranteed by the SBA. The Company recognizes gains or losses from the sale of the SBA-guaranteed portion of a loan at the date of the sales agreement when control of the future economic benefits embodied in the loan is surrendered. The gains are calculated in accordance with SFAS 140, which requires that the gain on the sale of a portion of a loan be based on the relative fair values of the loan sold and the loan retained. The gain on loan sales is due to the differential between the carrying amount of the portion of loans sold and the sum of the cash received and the servicing fee receivable. The servicing fee receivable represents the present value of the difference between the servicing fee received by the Company (generally 100 to 400 basis points) and the Company's servicing costs and normal profit, after considering the estimated effects of prepayments and defaults over the life of the servicing agreement. In connection with calculating the servicing fee receivable, the Company must make certain assumptions including the cost of servicing a loan including a normal profit, the estimated life of the underlying loan that will be serviced, and the discount rate used in the present value calculation. The Company considers 40 basis points to be its cost plus a normal profit and uses the note rate plus 100 basis points for loans with an original maturity of ten years or less, and the note rate plus 200 basis points for loans with an original maturity of greater than ten years as the discount rate. The note rate is generally the prime rate plus 2.75%.

The servicing fee receivable is amortized as a charge to loan servicing fee income over the estimated lives of the underlying loans using the effective interest rate method. The Company reviews the carrying amount of the servicing fee receivable for possible impairment by stratifying the receivables based on one or more of the predominant risk characteristics of the underlying financial assets. The Company has stratified its servicing fee receivable into pools, generally by the year of creation, and within those pools, by the term of the loan underlying the servicing fee receivable. If the estimated present value of the future servicing income is less than the carrying amount, the Company establishes an impairment reserve and adjusts future amortization accordingly. If the fair value exceeds the carrying value, the Company may reduce future amortization. The servicing fee receivable is carried at the lower of amortized cost or fair value.

The estimated net servicing income is based, in part, on management's estimate of prepayment speeds, including default rates, and accordingly, there can be no assurance of the accuracy of these estimates. If the prepayment speeds occur at a faster rate than anticipated, the amortization of the servicing asset will be accelerated and its value will decline; and as a result, servicing income during that and subsequent periods would decline. If prepayments occur slower than anticipated, cash flows would exceed estimated amounts and servicing income would increase. The constant prepayment rates utilized by the Company in estimating the lives of the loans depend on the original term of the loan, industry trends, and the Company's historical data. During 2001, the Company began to experience an increase in prepayment activity and delinquencies. These trends continued to worsen during 2001, and as a result the Company revised its prepayment assumptions on certain loan pools to between 25% and 35% from the 15% rate historically used on all pools. This resulted in $2,171,000 of charges to operations, increasing the reserve for temporary impairment of the servicing fee receivable during 2001. Since late in 2002, prepayment patterns have slowed. The Company evaluates the temporary impairment to determine if any such temporary impairment would be considered to be permanent in nature. The Company determined that $856,000 of the temporary impairment reserve had suffered a permanent loss in value and was now permanent. Additionally, during 2003, the Company determined that $400,000 of the temporary impairment reserve was no longer warranted due to the above discussed prepayment patterns and consequently, was reversed and recognized as servicing fee income. The prepayment rate of loans may be affected by a variety of economic and other factors, including prevailing interest rates and the availability of alternative financing to borrowers.

The activity in the reserve for servicing fee receivable follows:

Year Ended December 31,	*2003*	*2002*	*2001*
Beginning Balance	**$2,293,500**	$2,376,000	$ 205,000
Adjustments to carrying values(1)	**(856,000)**	—	—
Additions (reductions) charged to operations	**(400,000)**	(82,500)	2,171,000
Ending Balance	**$1,037,500**	$2,293,500	$2,376,000

(1) The Company determined that a fully reserved portion of the servicing asset had suffered a permanent loss in value, and accordingly, reduced both the balance of the gross servicing fee receivable and the related reserve by $856,000. There was no impact on the consolidated statement of income.

The Company also has the option to sell the unguaranteed portions of loans to third party investors. The gain or loss on such sales will be calculated in accordance with SFAS No. 140. The discount related to unguaranteed portions sold would be reversed and the Company would recognize a servicing fee receivable or liability based on servicing fees retained by the Company. The Company is required to retain at least 5% of loans sold under the SBA Section 7(a) program. The Company had sales of unguaranteed portions of loans to third party investors of $4,395,000, $16,762,000, and $0 for the years ended December 31, 2003, 2002, and 2001, generating a net gains on sale of $202,000, $571,000, and $0.

Unrealized Appreciation (Depreciation) and Realized Gains (Losses) on Investments

The change in unrealized appreciation (depreciation) on investments is the amount by which the fair value estimated by the Company is greater (less) than the cost basis of the investment portfolio. Realized gains or losses on investments are generated through sales of investments, foreclosure on specific collateral, and writeoffs of loans or assets acquired in satisfaction of loans, net of recoveries. Unrealized depreciation on net investments (which excludes Media and foreclosed properties) was $7,631,000 as of December 31, 2003 and $958,000 as of December 31, 2002. The Company's investment in Media, as a wholly-owned portfolio investment company, is also subject to quarterly assessments of its fair value. The Company uses Media's actual results of operations as the best estimate of changes in its fair value, and records the result as a component of unrealized appreciation (depreciation) on investments. See Note 3 for the presentation of financial information for Media.

The following table sets forth the changes in the Company's unrealized appreciation (depreciation) on net investments for the years ended December 31, 2003, 2002, and 2001.

	Loans	*Equity Investments*	*Total*
Balance, December 31, 2000	$(6,988,790)	$ (422,577)	$ (7,411,367)
Increase in unrealized			
Appreciation on investments	—	2,937,051	2,937,051
Depreciation on investments	(6,495,139)	(915,492)	(7,410,631)
Reversal of unrealized appreciation (depreciation) related to realized			
Gains on investments	(3,155)	—	(3,155)
Losses on investments	3,862,449	450,014	4,312,463
Other	(1,669)	76,256	74,587
Balance December, 2001(1)	(9,626,304)	2,125,252	(7,501,052)
Increase in unrealized			
Appreciation on investments	—	4,354,823	4,354,823
Depreciation on investments	(3,843,923)	(260,403)	(4,104,326)
Reversal of unrealized appreciation (depreciation) related to realized			
Gains on investments	(2,722)	—	(2,722)
Losses on investments	6,075,523	219,912	6,295,435
Other	400,000	(400,000)	—
Balance December 31, 2002(1)	(6,997,426)	6,039,584	(957,842)
Increase in unrealized			
Appreciation on investments	**—**	**1,857,627**	**1,857,627**
Depreciation on investments	**(3,223,280)**	**122,400**	**(3,100,880)**
Reversal of unrealized appreciation (depreciation) related to realized			
Gains on investments	**(11,811)**	**(7,732,566)**	**(7,744,377)**
Losses on investments	**2,314,726**	**—**	**2,314,726**
Balance December 31, 2003(1)	**$(7,917,791)**	**$ 287,045**	**$(7,630,746)**

(1) Excludes unrealized depreciation of $317,361, $128,738 and $43,093 on foreclosed properties at December 31, 2003, 2002 and 2001, respectively.

The table below summarizes components of unrealized realized gains and losses in the investment portfolio.

Year Ended December 31,	*2003*	*2002*	*2001*
Net change in unrealized appreciation (depreciation) on investments			
Unrealized appreciation	**$ 1,857,627**	$ 4,354,823	$ 2,937,051
Unrealized depreciation	**(3,100,880)**	(4,104,326)	(7,410,631)
Unrealized depreciation on Media	**(3,932,828)**	(4,794,394)	(3,374,955)
Realized gains	**(7,744,377)**	(2,722)	(120,545)
Realized losses	**2,314,726**	6,295,435	4,432,851
Unrealized gains (losses) on foreclosed properties	**(317,361)**	(128,738)	(43,093)
Other	**—**	—	20,797
Total	**$(10,923,093)**	$ 1,620,078	$(3,558,525)
Net realized gains (losses) on investments			
Realized gains	**$ 13,966,891**	$ 2,722	$ 1,127,593
Realized losses	**(2,314,726)**	(6,295,435)	(4,124,079)
Direct recoveries (charge-offs)	**36,145**	(42,568)	(18,660)
Realized losses on foreclosed properties	**(161,682)**	—	—
Total	**$ 11,526,628**	$(6,335,281)	$(3,015,146)

Goodwill

Cost of purchased businesses in excess of the fair value of net assets acquired (goodwill) was amortized on a straight-line basis over fifteen years. Effective January 1, 2002, coincident with the adoption of SFAS No.142, " Goodwill and Intangible Assets," the Company ceased the amortization of goodwill, and engaged a consultant to help management evaluate its carrying value. The results of this evaluation demonstrated no impairment in goodwill for 2003 and 2002. The Company intends to conduct an annual appraisal of its goodwill, and will recognize any impairment in the period the impairment is identified. The amount of goodwill amortized to expense was $0 in 2003 and 2002, and was $653,000 for 2001. If goodwill had not been amortized for 2001, net increase (decrease) in net assets resulting from operations would have been ($3,406,000) or ($0.21) per share.

Fixed Assets

Fixed assets are carried at cost less accumulated depreciation and amortization, and are depreciated on a straight-line basis over their estimated useful lives of 3 to 10 years. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or the estimated economic useful life of the improvement. Depreciation and amortization expense was $644,000, $595,000, and $610,000 for the years ended December 31, 2003, 2002, and 2001.

Deferred Costs

Deferred financing costs, included in other assets, represents costs associated with obtaining the Company's borrowing facilities, and is amortized over the lives of the related financing agreements. Amortization expense was $2,771,000, $7,958,000, and $1,521,000 for the years ended December 31, 2003, 2002, and 2001. In addition, the Company capitalizes certain costs for transactions in the process of completion, including those for acquisitions and the sourcing of other financing alternatives. Upon completion or termination of the transaction, any accumulated amounts will be amortized against income over an appropriate period, capitalized as goodwill, or written off. The amounts on the balance sheet for all of these purposes were $2,997,000 and $5,135,000 as of December 31, 2003 and 2002. See also Note 14 for the details of the costs of debt extinguishment.

Federal Income Taxes

Traditionally, the Company and each of its corporate subsidiaries other than Media (the RIC subsidiaries) have elected to be treated for federal income tax purposes as a regulated investment company (RICs) under the Internal Revenue Code of 1986, as amended (the Code). As RICs, the Company and each of the RIC subsidiaries are not subject to US federal income tax on any gains or investment company taxable income (which includes, among other things, dividends and interest income reduced by deductible expenses) that it distributes to its shareholders, if at least 90% of its investment company taxable income for that taxable year is distributed. It is the Company's and the RIC subsidiaries' policy to comply with the provisions of the Code. The Company did not qualify to be treated as a RIC for 2002, primarily due to a shortfall of interest and dividend income related to total taxable income caused primarily by losses in MFC and other subsidiaries. As a result, the Company was treated as a taxable entity in 2002, which had an immaterial effect on the Company's financial position and results of operations for 2002. Although there can be no assurances, the Company expects to qualify as a RIC in 2003, but it now anticipates that it will not elect RIC status in 2003 in order to better utilize the net operating loss carryforwards generated in 2002 and prior years.

As a result of the above, for 2003 and for 2002, income taxes were provided under the provisions of SFAS No. 109, "Accounting for Income Taxes," as the Company was treated as a taxable entity for tax purposes. Accordingly, the Company recognized current and deferred tax consequences for all transactions recognized in the consolidated financial statements, calculated based upon the enacted tax laws, including tax rates in effect for current and future years. Valuation allowances were established for deferred tax assets when it was more likely than not that they would not be realized.

Media and MB are not RICs and are taxed as a regular corporations. For 2003 and 2002, Media's losses have been included in the tax calculation of the Company along with MFC. The Trust is not subject to federal income taxation. Instead, the Trust's taxable income is treated as having been earned by MFC.

Net Increase (Decrease) in Net Assets Resulting from Operations per Share (EPS)

Basic earnings per share are computed by dividing net increase (decrease) in net assets resulting from operations available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if option contracts to issue common stock were exercised, and has been computed after giving consideration to the weighted average dilutive effect of the Company's common stock and stock options. The table below shows the calculation of basic and diluted EPS.

Years Ended December 31,	*2003*	*2002*	*2001*
Net increase (decrease) in net assets resulting from operations available to common shareholders	**$ 2,018,023**	$(12,611,616)	$(4,058,283)
Weighted average common shares outstanding applicable to basic EPS	**18,245,774**	18,242,728	16,852,179
Effect of dilutive stock options(1)	**42,178**	—	—
Adjusted weighted average common shares outstanding applicable to diluted EPS	**18,287,952**	18,242,728	16,852,179
Basic earnings per share	**$ 0.11**	$ (0.69)	$ (0.24)
Diluted earnings per share	**0.11**	(0.69)	(0.24)

(1) Because there were net losses in 2002 and 2001, the effect of stock options is antidilutive, and therefore is not presented.

Dividends to Shareholders

The table below shows the tax character of distributions for tax reporting purposes.

Years Ended December 31,	*2003*	*2002*	*2001*
Dividends paid from			
Ordinary income	**$1,643,366**	$547,282	$6,426,668
Long-term capital gain	**—**	—	—
Total dividends	**$1,643,366**	$547,282	$6,426,668

Our ability to make dividend payments is restricted by SBA regulations and under the terms of the SBA debentures. As of December 31, 2003, all required dividends for tax purposes had been paid.

Stock-Based Compensation

The Company has adopted the provisions of SFAS No.123 Accounting for Stock Based Compensation (SFAS 123)", which established a fair value-based method of accounting for stock options. The Company measures compensation cost for stock options using the current intrinsic value-based method as prescribed by Accounting Principles

Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). Under SFAS 123, the use of the intrinsic value-based method requires pro forma disclosure of net income and earnings per share as if the fair value-based method had been adopted.

The Company records stock compensation in accordance with APB Opinion No. 25. Had compensation cost for stock options been determined based on the fair value at the date of grant, consistent with the provisions of SFAS 123, the Company's net increase in net assets resulting from operations would have been increased to the pro forma amounts indicated in the table below.

	2003	*2002*	*2001(1)*
Net increase (decrease) in net assets resulting from operations	**$2,018,023**	$(12,611,616)	$(4,058,283)
Add: stock-based employee compensation expense determined under APB No.25, included in net increase (decrease) net assets resulting from operations		—	439,776
Less: stock-based employee compensation benefit (expense) determined under fair value method	**(4,246)**	(2,572)	—
Net increase (decrease) in net assets resulting from operations, pro forma	**$2,013,777**	$(12,614,188)	$(3,618,507)
Net value per share			
Basic—as reported	**$ 0.11**	$ 0.69	$ 0.24
Basic—pro forma	**0.11**	0.69	0.22
Diluted—as reported	**0.11**	0.69	0.24
Diluted—pro forma	**0.11**	0.69	0.22

(1) During 2001, the impact of employee forfeitures exceeded the proforma compensation expense related to grants, and accordingly, the pro forma impact reduced the Company's net decrease in net assets resulting from operations.

Derivatives

Through June 2002, the Company was party to certain interest rate cap agreements. These contracts were entered into as part of the Company's management of interest rate exposure and limited the amount of interest rate risk that could be taken on a portion of the Company's outstanding debt. All interest rate caps are designated as hedges of certain liabilities; however, any hedge ineffectiveness is charged to earnings in the period incurred. Premiums paid on the interest rate caps were previously amortized over the lives of the cap agreements and amortization of these costs was recorded as an adjustment to interest expense. Upon adoption of SFAS 133, the interest rate caps were recorded as a reduction of interest expense over the life of the agreements. No amounts were charged to earnings in 2003 or 2002, and $82,000 was charged to earnings in 2001. The Company had no interest rate cap agreements outstanding as of December 31, 2003.

Reclassifications

Certain reclassifications have been made to prior year balances to conform with the current year presentation.

Note 3: Investment in and Loans to Media

The following table represents Media's consolidated statements of operations.

Year Ending December 31,	*2003*	*2002*	*2001*
Advertising revenue	**$ 6,234,409**	$ 6,489,358	$13,249,993
Cost of fleet services	**4,518,994**	4,946,702	7,592,173
Gross profit	**1,715,415**	1,542,656	5,657,820
Depreciation and other non cash adjustments	**2,413,071**	1,858,393	1,960,903
Other operating expenses	**4,299,096**	5,177,684	5,947,091
Loss from operations	**(4,996,752)**	(5,493,421)	(2,250,174)
Other income	**1,035,633**	—	—
Loss before taxes	**(3,961,119)**	(5,493,421)	(2,250,174)
Income tax provision (benefit)	**(28,291)**	(699,027)	1,124,781
Net loss	**$(3,932,828)**	$(4,794,394)	$(3,374,955)

The following table presents Media's consolidated balance sheets.

Year Ending December 31,	*2003*	*2002*
Cash	**$ 422,432**	$ 211,090
Accounts receivable	**1,668,790**	1,031,698
Equipment, net	**919,138**	2,089,830
Prepaid signing bonuses, net	**1,377,596**	2,201,315
Goodwill	**2,082,338**	2,082,338
Other	**417,338**	570,185
Total assets	**$ 6,887,632**	$ 8,186,456
Accounts payable and accrued expenses	**$ 1,148,853**	$ 1,031,549
Deferred revenue	**1,747,042**	789,846
Due to parent	**—**	10,388,562
Note payable to banks	**377,252**	1,858,815
Total liabilities	**3,273,147**	14,068,772
Shareholder equity	**14,503,772**	1,001,000
Accumulated net losses	**(10,889,287)**	(6,883,316)
Total shareholder equity (accumulated net losses)	**3,614,485**	(5,882,316)
Total liabilities and equity	**$ 6,887,632**	$ 8,186,456

During the last three years, Media's operations were constrained by a very difficult advertising environment that resulted from the September 11, 2001 terrorist attacks and a general economic downturn, compounded by the rapid expansion of taxicab tops inventory that occurred during 1999 and 2000. Media began to recognize losses as growth in operating expenses exceeded growth in revenue. Media is actively pursuing new sales opportunities, including expansion and upgrading of the sales force, and has taken steps to reduce operating expenses, including renegotiation of fleet payments for advertising rights to better align ongoing revenues and expenses, and to maximize cash flow from operations. Media has developed an operating plan to fund only necessary operations out of available cash flow and intercompany borrowings, and to escalate its sales activities to generate new revenues. Although there can be no assurances, Media and the Company believe that this plan will enable Media to weather this downturn in the advertising cycle and maintain operations at existing levels until such time as business returns to historical levels.

During 2003, continued negotiations with certain fleets were concluded with the result that $389,000 that Media had accrued as payments to these fleets was reversed against Media's cost of fleet services. Also during 2003, Media settled a claim against one of its fleet operators. The result was a termination of certain contractual relations, the payment of $1,052,000 to Media, the transfer of certain assets to the fleet operator, and the forgiveness of certain liabilities Media owed the fleet operator. The net result of this settlement was a $985,000 gain reflected as other income in the Media's consolidated statement of operations for the year ended December 31, 2003. A portion of the proceeds from this settlement was used by Media to repay the balance of its US third-party outstanding debt. Also during 2003, Media determined that certain tops were no longer usable, and $196,000 of these tops were considered to be permanently impaired with a charge for such impairment reflected in depreciation expense.

In 2001, a substantial portion of Media's revenues arose from the realization of amounts that had been paid for and deferred from prior periods. Also during 2001, Media recorded a $1,350,000 tax provision to establish a valuation allowance against the future realization of a deferred tax asset that was recorded in prior periods relating to actual tax payments made for taxable revenue that had not been recorded for financial reporting purposes, of which $656,000 was reversed in 2002 as a result of changes in the tax laws. Media retains a net operating loss carryforward of $5,050,000 at December 31, 2003, which has been fully reserved against until such time as future operations demonstrates its potential realizability.

The Company charges Media for salaries and benefits and corporate overhead paid by the Company on Media's behalf. During 2003, these amounts owed by Media to the Company were contributed to Media as equity. The decrease in equipment and prepaid signing bonuses included the adjustments related to the contract settlement and the tops writeoff described above. The increase in accounts receivables and deferred revenue reflect increased sales activity to be recognized in future periods when the advertising in displayed.

In July 2001, Media acquired certain assets and assumed certain liabilities of MMJ, a taxi advertising operation similar to those operated by Media in the US, which has advertising rights on approximately 5,000 cabs servicing various cities in Japan. The terms of the agreement provide for an earn-out payment to the sellers based on average net income over the next three years. MMJ accounted for approximately 4% of Media's consolidated revenue during 2003, compared to 11% and 8% during 2002 and 2001.

Note 4: Floating Rate Borrowings

In September 2002, the Company and MFC renegotiated a substantial portion of their outstanding debt. The Trust entered into a revolving line of credit with Merrill Lynch Commercial Finance Corp., as successor to Merrill Lynch Bank, USA (MLB), for the purpose of acquiring medallion loans from MFC and to provide for future growth in the medallion lending business. The funds paid to MFC by the Trust were used to pay down notes payable to banks and senior secured notes. As a result of these paydowns, the Company and MFC were able to negotiate amendments to their existing facilities with the banks and noteholders. As of December 31, 2003, the Company and MFC had fully satisfied all of the previous notes payable to banks and senior secured notes, were current on all debt obligations, and in full compliance with all terms and conditions.

Borrowings under the Trust's revolving line of credit are collateralized by the Trust's assets and borrowings under the notes payable to banks and the senior secured notes were collateralized by the assets of MFC and the Company.

The outstanding balances were as follows:

	Payments Due By Period							
	2004	*2005*	*2006*	*2007*	*2008*	*Thereafter*	*December 31, 2003*	*December 31, 2002*
Revolving line of credit	**$ —**	$222,936,000	$ —	$ —	$ —	$ —	$222,936,000	$132,590,000
Notes payable to banks	**4,000,000**	—	1,639,000	1,944,000	—	—	7,583,000	48,018,000
Total	**$4,000,000**	$222,936,000	$1,639,000	$1,944,000	$ —	$ —	$230,519,000	$180,608,000

(a) Revolving Line of Credit

In September 2002, and as renegotiated in September 2003, the Trust entered into a revolving line of credit agreement with MLB to provide up to $250,000,000 of financing to acquire medallion loans from MFC (MLB line), which increases to $300,000,000 in September 2004 at the option of MFC. MFC is the servicer of the loans owned by the Trust. The MLB line includes a borrowing base covenant and rapid amortization in certain circumstances. In addition, if certain financial tests are not met, MFC can be replaced as the servicer. The MLB line matures in September 2005. The interest rate is generally LIBOR plus 1.25% with an unused facility fee of 0.125%, effective September 2003, and was LIBOR plus 1.50% and 0.375%, previously. The facility fee was $375,000 at the September 2003 negotiation and $900,000 on the first anniversary date.

(b) Notes Payable to Banks and Senior Secured Notes

New Bank Loans

On April 30, 2003, the Company entered into a $7,000,000 note agreement with Atlantic Bank of New York, collateralized by certain assets of MBC, of which $4,000,000 was outstanding at December 31, 2003. The note matures on May 1, 2004 and bears interest at Atlantic Bank's prime rate plus 0.25%, payable monthly. Principal is due at maturity.

On June 30, 2003, an operating subsidiary of MFC entered into a $2,000,000 note agreement with Banco Popular North America, collateralized by certain taxicab medallions owned by Medallion Chicago, of which $1,944,000 was outstanding at December 31, 2003. The note matures June 1, 2007 and bears interest at the bank's prime rate less 0.25%, payable monthly. Principal and interest payments of $18,000 are due monthly, with the balance due at maturity.

On July 11, 2003 certain operating subsidiaries of MFC entered into an aggregate $1,700,000 of note agreements with Atlantic Bank of New York and Israel Discount Bank, collateralized by certain taxicab medallions owned by Medallion Chicago of which $1,639,000 was outstanding at December 31, 2003. The notes mature July 8, 2006 and bear interest at the LIBOR plus 2%, adjusted annually, payable monthly. Principal and interest payments of $3,000 are due monthly, with the balance due at maturity.

The Company Bank Loan

The Company Bank Loan was paid off in the 2003 second quarter. It bore interest at the rate per annum of prime plus 0.5%. The Company Bank Loan permitted the payment of dividends solely to the extent necessary to enable the Company to maintain its status as a RIC, and to avoid the payment of excise taxes, consistent with the Company's dividend policy. The Company Bank Loan was collateralized by all receivables and various other assets owned by the Company. All financial covenants except for the borrowing base covenants were waived during the term of the loan.

On July 31, 1998 (and as subsequently amended and restated), the Company and MBC entered into the Company Bank Loan, a committed revolving credit agreement with a group of banks. On September 21, 2001, the Company Bank Loan was extended to November 5, 2001 to allow for continuation of renewal discussions which were completed and an amendment signed on February 20, 2002. The Company Bank Loan was further amended on September 13, 2002.

The MFC Bank Loan

The MFC Bank Loan was paid off in the 2003 second quarter. It bore interest at the rate per annum of prime, which increased to prime plus 0.5% on January 11, 2003, and further increased to prime plus 1% on May 11, 2003. The MFC Bank Loan permitted the payment of dividends solely to the extent necessary to enable MFC to maintain its status as a RIC and to avoid the payment of excise taxes, consistent with MFC's dividend policy. The MFC Bank Loan was collateralized by all receivables and various other assets owned by MFC. The collateral for the MFC Bank Loan collateralized both the MFC Bank Loan and the MFC Note Agreements on an equal basis. All financial covenants except for the borrowing base covenants were waived during the term of the loan.

On March 27, 1992 (and as subsequently amended and restated), MFC entered into the MFC Bank Loan, a line of credit with a group of banks. Effective on June 1, 1999, MFC extended the MFC Bank Loan until September 30, 2001 at an aggregate credit commitment amount of $220,000,000, an increase from $195,000,000 previously, pursuant to the Amended and Restated Loan Agreement dated December 24, 1997. The MFC Bank Loan was further amended on March 30, 2001, September 30, 2001, December 31, 2001, April 1, 2002, and September 13, 2002.

MFC Note Agreements (See Note 5)

The MFC Note Agreements were paid off in the 2003 second quarter, and had similar terms to the MFC Bank Loan, except the initial interest rate was 8.85%, which increased to 9.35% on January 12, 2003, and further increased to 9.85% on May 12, 2003. A prepayment penalty of approximately $3,500,000 was paid in accordance with the prepayment provisions of the agreement.

On June 1, 1999, MFC issued $22,500,000 of Series A senior secured notes and on September 1, 1999, MFC issued $22,500,000 of Series B senior secured notes (together, the Notes). The Notes ranked pari passu with the Bank Loans through inter-creditor agreements, and were generally subject to the same terms, conditions, and covenants as the MFC Bank Loans.

Amendments to the Company Bank Loan, MFC Bank Loan, and MFC Note Agreements

Previously, in the 2001 fourth quarter, the Company Bank Loan matured and MFC was in default under its bank loan and its senior secured notes. As of April 1, 2002 and September 13, 2002, the Company and MFC obtained amendments to their bank loans and senior secured notes. The amendments, in general, waived all defaults through September 13, 2002, changed the maturity dates of the loans and notes, modified the interest rates borne on the bank loans and the secured notes, required certain immediate, scheduled or other prepayments of the loans and notes and reductions in the commitments under the bank loans, required the Company and MFC to engage or seek to engage in certain asset sales, and instituted additional operating restrictions and reporting requirements, with the final amendment reducing such rates.

In addition to the changes in maturity, the interest rates on the Company and MFC's Bank Loans and MFC's Note Agreements were modified, and additional fees were charged to renew and maintain the facilities and notes. The last amendments contained substantial limitations on our ability to operate and in some cases required modifications to our previous normal operations. Covenants restricting investment in certain subsidiaries, elimination of various intercompany balances between affiliates, limits on the amount and timing of dividends, the tightening of operating covenants, and additional reporting obligations were added as a condition of renewal.

Interest and Principal Payments

Interest and principal payments were paid monthly. Interest on the bank loans was calculated monthly at a rate indexed to the bank's prime rate. Substantially all promissory notes evidencing the Company's and MFC's investments, other than those held by the Trust, were held by a bank as collateral agent under the agreements. The Company and MFC were required to pay an amendment fee of 25 basis points on the amount of the aggregate commitment for the Company. As noted above, the amendments to the Company's bank loans and senior secured notes, entered into in 2002, involved changes, and in some cases increases, to the interest rates payable thereunder. In addition, during events of default, the interest rate borne on the lines of credit was based upon a margin over the prime rate rather than LIBOR. In addition to the interest rate charges, approximately $15,080,000 had been incurred through December 31, 2003 for attorneys and other professional advisors, most working on behalf of the lenders, and for prepayment penalties and default interest charges, of which $63,000 and $9,417,000 was expensed as part of costs of debt extinguishment in 2003 and 2002, $2,325,000 and $1,754,000 was expensed as part of interest expense in 2003 and 2002, and $0 and $173,000 was expensed as part of professional fees in 2003 and 2002. The balance of $1,327,000, which relates solely to the Trust's new line of credit with MLB, will be charged to interest expense over the remaining term of the line of credit.

The table below shows the costs of the old notes payable to banks and senior secured notes and related amounts outstanding for the years ended December 31, as follows.

	2003(1)	2002	2001
The Company			
Interest expense(2)	**$ 358,784**	$ 3,936,336	$ 6,412,265
Costs of debt extinguishment	**(15,110)**	1,735,404	—
Total debt costs	**$ 343,674**	$ 5,671,740	$ 6,412,265
Average borrowings outstanding	**$ 7,880,817**	$ 59,702,701	$ 96,183,151
Interest rate(3)	**4.55%**	6.59%	6.67%
Total debt costs rate(4)	**4.36%**	9.50%	6.67%
Amount outstanding	**$ —**	$ 36,921,051	$ 85,000,000
Weighted average interest at period end	**—**	4.95%	6.25%
MFC			
Interest expense(2)	**$ (336,791)**	$ 9,749,294	$ 16,422,920
Costs of debt extinguishment	**104,870**	7,681,910	—
Total debt costs	**$ (231,921)**	$ 17,431,204	$ 16,422,920
Average borrowings outstanding	**$ 1,657,908**	$135,019,784	$233,775,260
Interest rate(3)	**(20.31)%**	7.22%	7.03%
Total debt costs rate(4)	**(13.99)%**	12.91%	7.03%
Amount outstanding	**$ —**	$ 13,411,291	$193,000,000
Weighted average interest at period end	**—**	5.21%	5.36%
Combined			
Interest expense(2)	**$ 21,993**	$ 13,685,630	$ 22,835,185
Costs of debt extinguishment	**89,760**	9,417,314	—
Total debt costs	**$ 111,753**	$ 23,102,944	$ 22,835,185
Average borrowings outstanding	**$ 9,538,725**	$194,722,485	$329,958,411
Interest rate(3)	**0.23%**	7.03%	6.92%
Total debt costs rate(4)	**1.17%**	11.86%	6.92%
Amount outstanding	**$ —**	$ 50,332,342	$278,000,000
Weighted average interest at period end	**—**	5.02%	5.63%

(1) The debts were fully paid off during early 2003, and the final settlement resulted in reversals of amounts previously accrued, which resulted in the amounts presented in 2003.

(2) Includes commitment fees, and amortization of certain capitalized costs of obtaining debt.

(3) Represents interest expense for the period presented as a percentage of average borrowings outstanding.

(4) Represents total debt costs for the period presented as a percentage of average borrowings outstanding.

(c) Interest Rate Cap Agreements

On June 22, 2000, MFC entered into an interest rate cap agreement limiting the Company's maximum LIBOR exposure on $10,000,000 of MFC's revolving credit facility to 7.25% until June 24, 2002. Premiums paid under interest rate cap agreements were fully expensed by the end of 2001, including $82,000 expensed in 2001. There are no unamortized premiums as of December 31, 2003.

Note 5: Fixed Rate Borrowings

The following table shows all fixed rate borrowings, including all outstanding SBA debentures, all of which mature more than 5 years from December 31, 2003.

Due Date	2003	2002	Interest Rate
September 1, 2011	**$17,985,000**	$17,985,000	6.77%
March 1, 2013	**16,300,000**	15,000,000	5.51
March 1, 2012	**10,500,000**	10,500,000	7.22
March 1, 2014	**6,000,000**	—	2.59
September 1, 2013	**3,150,000**	—	5.76
September 1, 2012	**3,000,000**	3,000,000	5.55
December 1, 2006	—	5,500,000	—
March 1, 2007	—	4,210,000	—
September 1, 2007	—	4,060,000	—
June 1, 2007	—	3,000,000	—
March 1, 2006	—	2,000,000	—
March 1, 2013	—	1,300,000	—
June 1, 2005	—	520,000	—
December 1, 2005	—	520,000	—
June 1, 2006	—	250,000	—
Total SBA debentures	**56,935,000**	67,845,000	5.93
Senior secured notes (See Note 4)	—	2,314,000	
Total fixed rate borrowings	**$56,935,000**	$70,159,000	5.93

During 2001, FSVC and MCI were approved by the SBA to receive $36,000,000 each in funding over a period of five years. MCI drew down $10,500,000 during June 2001, $4,500,000 during December 2001 and $6,000,000 in November, 2003. FSVC drew down $7,485,000 in July 2001, $6,000,000 in January 2002, $3,000,000 in April 2002, $15,000,000 in September 2002, $1,300,000 in November 2002, and $3,150,000 in September 2003. In November 2003, FSVC applied for and received an additional commitment of $8,000,000. As of December 31, 2003, $23,065,000 was available to be drawn down under the SBA commitment.

The senior secured notes were linked to the old bank debt that was all paid off during 2003. See Note 4 for additional information on the senior secured notes (MFC note agreements).

Note 6: Income Taxes

The Company is considered to be a taxable entity for US Federal income tax purposes for 2003 and 2002. The results of the Company's operations are also subject to state taxation in various jurisdictions in 2003 and 2002.

The provision (benefit) for income taxes consisted of the following components for the years ended December 31, 2003 and 2002.

	2003	2002
Current		
US federal	**$ 41,149**	$ 72,000
State	—	13,000
	41,149	85,000
Deferred		
US federal	**951,372**	(712,000)
State	—	—
	951,372	(712,000)
Provision (benefit) for income taxes before utilization of net operating loss carryforwards and valuation allowance for tax assets	**992,521**	(627,000)
Utilization of net operating loss carryforwards	**(951,372)**	—
Valuation allowance for tax assets	—	712,000
Net provision for income taxes	**$ 41,149**	$ 85,000

In connection with the Company's loss of RIC status for 2002 and its effective conversion from an entity that was allowed to reduce its taxable income by distributions to its shareholders to an entity that was not allowed such reductions, the Company recognized a deferred tax asset primarily related to unrealized losses on investments owned.

The following table reconciles the provision for income taxes to the US federal statutory income tax rate for the years ended December 31, 2003 and 2002.

	2003	2002
US federal statutory tax rate	**34.0%**	(34.0%)
Change in valuation allowance	**(32.0)**	3.7
Deduction related to Media's results of operations taxed separately	**0.0**	(21.1)
Effective income tax rate	**2.0%**	(9.2%)

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when such differences are expected to reverse. Total tax assets are primarily represented by temporary differences for unrealized losses on investments, losses in foreign operations, and income that was not recognized for financial reporting purposes but was taxable in the amount of approximately $2,185,000 in 2003 and $3,208,000 in 2002, partially offset by temporary differences for deferred income to be recognized in future years of $1,199,000 in 2003 and $1,935,000 in 2002, resulting in a net operating loss carryforward of $986,000 in 2003, which expires in 2010. As the Company cannot estimate if there will be sufficient taxable income in the years in which the temporary tax differences will reverse, a valuation allowance has been established in the amount of $986,000 in 2003 for the net tax assets position described above. The Company is exploring alternatives to qualify as a regulated investment company for tax purposes, and if such qualification is achieved, the net operating losses will not be utilizable unless the Company, in future periods, does not qualify as a regulated investment company for tax purposes and has capital gains, in which case some or all of the capital loss carryforwards may be available to be utilized.

Note 7: Stock Options

The Company has a stock option plan (1996 Stock Option Plan) available to grant both incentive and nonqualified stock options to employees. The 1996 Stock Option Plan, which was approved by the Board of Directors and shareholders on May 22, 1996, provides for the issuance of a maximum of 750,000 shares of common stock of the Company. On June 11, 1998, the Board of Directors and shareholders approved certain amendments to the Company's 1996 Stock Option Plan, including increasing the number of shares reserved for issuance from 750,000 to 1,500,000. In addition on June 11, 2002 an additional 750,000 were approved bringing the shares reserved for issuance to 2,250,000. At December 31, 2003, 89,555 shares of the Company's common stock remained available for future grants. The 1996 Stock Option Plan is administered by the Compensation Committee of the Board of Directors. The option price per share may not be less than the current market value of the Company's common stock on the date the option is granted. The term and vesting periods of the options are determined by the Compensation Committee, provided that the maximum term of an option may not exceed a period of ten years.

A non-employee director stock option plan (the Director Plan) was also approved by the Board of Directors and shareholders on May 22, 1996. On February 24, 1999, the Board of Directors amended and restated the Director Plan in order to adjust the calculation of the number of shares of the Company's common stock issuable under options to be granted to a non-employee director upon his or her re-election. Under the prior plan the number of options granted was obtained by dividing $100,000 by the current market price for the common stock. The Director Plan calls for the grant of options to acquire 9,000 shares of common stock upon election of a non-employee director. It provides for an automatic grant of options to purchase 9,000 shares of the Company's common stock to an Eligible Director upon election to the Board, with an adjustment for directors who are elected to serve less than a full term. A total of 100,000 shares of the Company's common stock are issuable under the Director Plan. At December 31, 2003, 9,577 shares of the Company's common stock remained available for future grants. The grants of stock options under the Director Plan are automatic as provided in the Director Plan. The option price per share may not be less than the current market value of the Company's common stock on the date the option is granted. Options granted under the Director Plan are exercisable annually, as defined in the Director Plan. The term of the options may not exceed five years.

The weighted average fair value of options granted during the years ended December 31, 2003, 2002, and 2001 was $0.89, $1.11, and $2.79 per share, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. However, management believes that such a model may or may not be applicable to a company regulated under the 1940 Act. The following weighted average assumptions were used for grants in 2003, 2002 and 2001:

Year ended December 31,	*2003*	*2002*	*2001*
Risk free interest rate	**3.53%**	5.0%	5.4%
Expected dividend yield	**8.0%**	8.0%	8.0%
Expected life of option in years	**7.0**	7.0	7.0
Expected volatility	**44%**	44%	44%

The following table presents the activity for the stock option program under the 1996 Stock Option Plan and the Director Plan for the years ended December 31, 2003, 2002, and 2001:

	Number of Options	*Exercise Price Per Share*	*Weighted Average Exercise Price*
Outstanding at December 31, 2000	1,089,276	$ 6.71–29.25	$18.88
Granted	213,750	11.50–16.00	12.37
Cancelled	(284,613)	13.75–29.25	18.05
Exercised	(34,000)	15.13–15.13	15.13
Outstanding at December 31, 2001	984,413	6.71–29.25	17.97
Granted(1)	880,901	4.73–9.00	5.26
Cancelled(1)	(54,776)	4.85–29.25	14.74
Exercised	—	—	—
Outstanding at December 31, 2002	1,810,538	4.73–29.25	12.16
Granted	**283,910**	**3.50–8.40**	**4.59**
Cancelled	**(175,502)**	**3.89–29.25**	**11.12**
Exercised	**(10,266)**	**4.85–4.85**	**4.85**
Outstanding at December 31, 2003	**1,908,680**	**3.50–29.25**	**10.90**
Options exercisable at			
December 31, 2001	492,654	6.71–29.25	19.37
December 31, 2002	997,347	4.73–29.25	16.63
December 31, 2003	**1,116,034**	**3.50–29.25**	**14.90**

(1) As originally reported, these amounts were $809,701 for grants and $53,976 for cancellations. These numbers have been adjusted to reflect the 2002 BLL option activity which had been omitted from the 2002 disclosure. The proper inclusion of these amounts in prior calculations had no impact on calculations, such as EPS.

The following table summarizes information regarding options outstanding and options exercisable at December 31, 2003 under the 1996 Stock Option Plan and the Director Plan:

	Options Outstanding			Options Exercisable		
	Weighted average			Weighted average		
Range of Exercise Prices	*Shares at December 31, 2003*	*Remaining contractual life in years*	*Exercise price*	*Shares at December 31, 2003*	*Remaining contractual life in years*	*Exercise price*
$3.50– 5.51	959,467	8.51	$ 4.87	288,822	8.45	$ 4.89
6.50 –13.75	279,010	5.70	10.19	157,009	4.73	10.71
14.25–15.56	62,255	6.23	14.73	62,255	6.23	14.71
16.00–18.75	382,734	5.19	17.45	382,734	5.19	17.42
19.31–29.25	225,214	4.66	26.72	225,214	4.66	26.42
$3.50–$29.25	1,908,680	6.91	$10.90	1,116,034	5.92	$14.90

Note 8: Quarterly Results of Operations (Unaudited)

The following table represents the Company's quarterly results operations for the years ended December 31, 2003, 2002, and 2001:

(In thousands except per share amounts)	*March 31*	*June 30*	*September 30*	*December 31*
2003 Quarter Ended				
Investment income	**$ 6,528**	**$ 6,468**	**$6,693**	**$ 6,525**
Net investment income before income taxes[(1)]	**295**	**303**	**684**	**174**
Net increase (decrease) in net assets resulting from operations	**430**	**755**	**1,111**	**(278)**
Net increase (decrease) in net assets resulting from operations per common share				
Basic	**$ 0.02**	**$ 0.04**	**$ 0.06**	**$ (0.01)**
Diluted	**0.02**	**0.04**	**0.06**	**(0.01)**
2002 Quarter Ended				
Investment income	$ 9,779	$ 8,522	$ 7,952	$ 7,622
Net investment income (loss) before income taxes	239	(1,823)	(6,462)	234
Net increase (decrease) in net assets resulting from operations	(1,409)	(3,007)	(8,384)	188
Net increase (decrease) in net assets resulting from operations per common share				
Basic	$ (0.08)	$ (0.16)	$ (0.46)	$ 0.01
Diluted	(0.08)	(0.16)	(0.46)	0.01
2001 Quarter Ended				
Investment income	$13,394	$11,618	$ 7,035	$10,055
Net investment income (loss) before income taxes	2,759	2,482	(4,363)	1,620
Net increase (decrease) in net assets resulting from operations	2,289	2,364	(8,986)	275
Net increase (decrease) in net assets resulting from operations per common share				
Basic	$ 0.16	$ 0.16	$ (0.49)	$ (0.07)
Diluted	$ 0.16	0.16	(0.49)	(0.07)

(1) As originally reported, these amounts were $305,000, $312,000, and $696,000 for the 2003 quarters ended March 31, June 30, and September 30, respectively, reflecting the exclusion of capital-based tax accruals which are now more properly reflected in operating expenses.

Note 9: New Accounting Pronouncements

In December 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46 (revised), "Consolidation of Variable Interest Entities" (FIN 46R), an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements". Variable interest entities, some of which were formerly referred to as special purpose entities, are generally entities for which their other equity investors (1) do not provide significant financial resources for the entity to sustain its activities, (2) do not have voting rights or (3) have voting rights that are disproportionately high compared with their economic interests. Under FIN 46R, variable interest entities must be consolidated by the primary beneficiary. The primary beneficiary is generally defined as having the majority of the risks and rewards of ownership arising from the variable interest entity. FIN 46R also requires certain disclosures if a significant variable interest is held but not required to be consolidated. The effective date of revised Interpretation No. 46 varies but is effective for us commencing March 31, 2004. The Company does not expect this standard to have a material impact on its consolidated financial condition or results of operations.

In May 2003, the FASB issued SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" (SFAS No. 150). This statement requires that an issuer classify financial instruments that are within its scope as a liability. Many of those instruments were classified as equity under previous guidance. Most of the guidance in SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not expect this standard to have a material impact on its consolidated financial condition or results of operations.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS No. 149). The provisions of SFAS No.149 that relate to SFAS No. 133 and No. 138 implementation issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. In addition, provisions of SFAS No. 149 which relate to forward purchases or sales of when-issued securities or other securities that do not yet exist, should be applied to both existing contracts and new contracts entered into after June 30, 2003. The changes in SFAS No. 149 improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. In particular, SFAS No. 149 (1) clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative discussed in paragraph 6(b) of SFAS No. 133 and No. 138, (2) clarifies when a derivative contains a financing component, (3) amends the definition of an underlying financing component to conform it to language used in FIN 45, and (4) amends certain other existing pronouncements. Those changes will result in more consistent reporting of contracts as either derivatives or hybrid instruments. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, except as stated above and for hedging relationships designated after June 30, 2003. In addition, except as stated above, all provisions of SFAS No.149 should be applied prospectively. The Company does not expect this standard to have a material impact on its consolidated financial condition or results of operations.

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—An Amendment of FASB Statement No. 123," which provides optional transition guidance for those companies electing to voluntarily adopt the accounting provisions of SFAS No. 123. In addition, the statement mandates certain interim disclosures that are incremental to those required by Statement No. 123. The Company will continue to account for stock-based compensation in accordance with APB No. 25. As such, the Company does not expect this standard to have a material impact on its consolidated financial position or results of operations. The Company adopted the disclosure-only provisions of SFAS No. 148 at December 31, 2002.

Note 10: Segment Reporting

The Company has two reportable business segments, lending and taxicab rooftop advertising. The lending segment originates and services medallion and secured commercial loans. The taxicab rooftop advertising segment sells advertising space to advertising agencies and companies in several major markets across the US and Japan, and is conducted by Media. Media is reported as a portfolio investment of the Company and is accounted for using the equity method of accounting. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. The lending segment is presented in the consolidated financial statements of the Company. Financial information relating to the taxicab rooftop advertising segment is presented in Note 3.

For taxicab rooftop advertising, the increase in unrealized appreciation (depreciation) on the Company's investment in Media represents Media's net income or loss, which the Company uses as the basis for assessing the fair market value of Media. Taxicab rooftop advertising segment assets are reflected in investment in and loans to Media on the consolidated balance sheets. See Note 3.

Note 11: Commitments and Contingencies

(a) Employment Agreements

The Company has employment agreements with certain key officers for either a three or five-year term. Annually, the contracts with a five-year term will renew for a new five-year term unless prior to the end of the first year, either the Company or the executive provides notice to the other party of its intention not to extend the employment period beyond the current five-year term. In the event of a change in control, as defined, during the employment period, the agreements provide for severance compensation to the executive in an amount equal to the balance of the salary, bonus and value of fringe benefits which the executive would be entitled to receive for the remainder of the employment period.

(b) Other Commitments

The Company had loan commitments outstanding of $25,048,000 at December 31, 2003 that are generally on the same terms as those to existing borrowers. Commitments generally have fixed expiration dates. Of these commitments, approximately $4,298,000 will be sold pursuant to SBA guaranteed sales. Since some commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. In addition, the Company had approximately $18,609,000 of undisbursed funds relating to revolving credit facilities with borrowers. These amounts may be drawn upon at the customer's request if they meet certain credit requirements.

Commitments for leased premises expire at various dates through April 30, 2012. At December 31, 2003, minimum rental commitments for non-cancelable leases are as follows:

2004	$1,174,000
2005	865,000
2006	504,000
2007	504,000
2008 and thereafter	681,000
Total	$3,728,000

Rent expense was $1,144,000, $1,032,000, and $945,000, for the years ended December 31, 2003, 2002, and 2001.

(c) Litigation

The Company and its subsidiaries become defendants to various legal proceedings arising from the normal course of business. In the opinion of management, based on the advice of legal counsel, there is no proceeding pending, or to the knowledge of management threatened, which in the event of an adverse decision would result in a material adverse impact on the financial condition or results of operations of the Company.

Note 12: Related Party Transactions

Certain directors, officers, and shareholders of the Company are also directors of its wholly-owned subsidiaries, MFC, BLL, MCI, MBC, FSVC, MB, and Media. Officer salaries are set by the Board of Directors of the Company.

Media is engaged in transactions to sell rooftop advertising space to a company represented by a relative of a Media officer. All transactions were made under market conditions and pricing.

During 2003, a member of the Board of Directors of the Company was also a partner in the Company's primary law firm. Amounts paid to the law firm were approximately $280,000 in 2003 and $1,629,000 in 2002.

Note 13: Shareholders' Equity

In November 2003, the Company announced a stock repurchase program which authorized the repurchase of up to $10,000,000 of common stock during the following six months, with an option for the Board of Directors to extend the time frame for completing the purchases. As of December 31, 2003, 10,816 shares were repurchased for $100,000.

In accordance with Statement of Position 93-2, "Determination, Disclosure and Financial Statement Presentation of Income, Capital Gain, and Return of Capital Distributions by Investment Companies," $11,036,537 was reclassified from capital in excess of par value to accumulated net investment losses at December 31, 2002 in the accompanying consolidated balance sheets. This reclassification had no impact on the Company's total shareholders' equity, and was designed to present the Company's capital accounts on a tax basis.

In the normal course of business, the Company and its subsidiaries enter into agreements, or are subject to regulatory requirements, that result in dividend and loan restrictions.

FDIC-insured banks, including MB, are subject to certain federal laws, which impose various legal limitations on the extent to which banks may finance or otherwise supply funds to certain of their affiliates. In particular, MB is subject to certain restrictions on any extensions of credit to, or other covered transactions, such as certain purchases of assets, with the Company or its affiliates.

Note 14: Costs of Debt Extinguishment

The details of the costs of debt extinguishment for the years ended December 31, 2003 and 2002 are in the following table. There were no costs of debt extinguishment in 2001.

	2003	2002
Financing costs for attorneys and loan fees	**$ —**	$4,237,000
Prepayment penalties	**205,000**	3,332,000
Default interest	**(173,000)**	1,471,000
Other professional fees	**31,000**	377,000
Total costs of debt extinguishment	**$ 63,000**	$9,417,000

Note 15: Other Income and Other Operating Expenses

The major components of other income were as follows:

Year ended December 31,	2003	2002	2001
Servicing fees	**$1,311,399**	$1,018,499	$(1,013,739)
Late charges	**795,512**	841,506	831,904
Accretion of discount	**462,797**	602,933	861,813
Prepayment penalties	**444,213**	492,503	690,090
Revenue sharing	**34,275**	964,411	65,640
Other	**552,587**	757,826	669,450
Total other income	**$3,600,783**	$4,677,678	$ 2,105,158

Included in servicing fee income was $400,000 in 2003 to reduce the valuation reserve for the servicing fee receivable, which resulted from improvements in prepayment patterns (see Note 2). The reduction in accretion of discount in 2003 and 2002 was primarily due to the lower amounts of SBA Section 7(a) loans outstanding. Included in revenue sharing income was a success fee earned on a mezzanine investment of $873,000 in 2002, and included in other income was, $115,000 of termination fees earned on deals that were not consummated in 2003, and referral fees and insurance proceeds of $111,000 in 2002. Overall, the decline in loan related fees reflected the reduction in the loan portfolio over the last two years.

The major components of other operating expenses were as follows:

Year ended December 31,	2003	2002	2001
Rent expense	**$1,144,124**	$1,031,943	$ 944,695
Loan collection expense	**813,421**	774,730	324,466
Depreciation and amortization	**643,809**	595,176	610,447
Insurance	**631,586**	571,508	358,834
Travel meals and entertainment	**501,040**	614,727	560,568
Office expense	**308,141**	630,827	509,632
Computer expense	**242,156**	265,825	440,640
Directors fees	**229,556**	163,660	172,987
Bank charges	**212,596**	221,415	517,093
Telephone	**187,612**	208,082	222,295
Dues and subscriptions	**93,235**	147,594	118,884
Other expenses	**1,745,340**	1,291,370	505,039
Total operating expenses	**$6,752,616**	$6,516,857	$5,285,580

Loan collection expenses increased over the last two years reflecting efforts at improving the level of non-performing assets, including the conversion of foreclosed properties to earning assets. Insurance expenses increased over the last two years as a result of significantly higher premiums charged, and to a lesser degree, increased coverages.

The decreases in 2003 in travel, meals, and entertainment, office, telephone, and dues and subscriptions were primarily due to the Company's continued efforts to decrease overall expenses. The increase in other expense was primarily due to 2003 capital-based state taxes. Directors fees increased primarily due to increases in the amounts paid to directors, in the number of directors serving on the Board, and in the number of board meetings held.

Note 16: Selected Financial Ratios and Other Data

The following table provides selected financial ratios and other data:

Year ended December 31,	*2003*	*2002*	*2001*	*2000*	*1999*
Net share data:					
Net asset value at the beginning of the period	**$ 8.87**	$ 9.59	$ 10.16	$ 10.83	$ 10.65
Net investment income (loss)	**0.08**	(0.44)	0.13	0.67	0.75
Net realized gains (losses) on investments	**0.63**	(0.35)	(0.17)	(0.27)	1.55
Net change in unrealized appreciation (depreciation) on investments	**(0.60)**	0.10	(0.20)	0.12	(0.86)
Increase (decrease) in shareholders' equity from operations	**0.11**	(0.69)	(0.24)	0.52	1.44
Issuance of common stock	**0.00**	0.00	0.01	0.01	0.00
Distribution of net investment income	**(0.09)**	(0.03)	(0.34)	(1.20)	(1.26)
Net asset value at the end of the period	**$ 8.89**	$ 8.87	$ 9.59	$ 10.16	$ 10.83
Per share market value at beginning of period	**$ 3.90**	$ 7.90	$ 14.63	$ 17.94	$ 14.31
Per share market value at end of period	**9.49**	3.90	7.90	14.63	17.94
Total return(1)	**146%**	(50%)	(44%)	(11%)	36%
Ratios/supplemental data					
Average net assets	**$162,265,000**	$168,627,645	$166,379,846	$152,521,444	$155,891,899
Ratio of operating expenses to average net assets(2)	**10.55%**	10.92%	10.34%	13.32%	11.55%
Ratio of net investment income (loss) to average net assets(3)	**0.94**	0.95	5.53	8.29	7.10

(1) Total return is calculated by comparing the change in value of a share of common stock assuming the reinvestment of dividends on the payment date.

(2) Operating expense ratios presented exclude the $63,000 and $9,417,000 costs of debt extinguishment in 2003 and 2002, and $550,000 in 2001 and $3,140,000 in 2000 to write off transaction, acquisition-related, and other nonrecurring charges. Unadjusted, the ratios would have been 10.59%, 16.50%, 10.67%, and 16.37% in 2003, 2002, 2001, and 2000, respectively.

(3) Net investment income ratios presented exclude the $63,000 and $9,417,000 costs of debt extinguishment in 2003 and 2002, the $6,700,000 of charges related to Chicago Yellow, the excess servicing asset, the additional bank charges, and the write-off of transaction costs in 2001, and the $3,140,000 of acquisitions related and other non-recurring charges in 2000. Unadjusted, the ratios would have been 0.90%, (4.71%), 1.48%, and 6.23% in 2003, 2002, 2001, and 2000 respectively.

Note 17: Employee Benefit Plans

The Company has a 401(k) Investment Plan (the 401(k) Plan) which covers all full-time and part-time employees of the Company who have attained the age of 21 and have a minimum of one-half year of service. Under the 401(k) Plan, an employee may elect to defer not less than 1% and no more than 15% of the total annual compensation that would otherwise be paid to the employee, provided, however, that employee's contributions may not exceed certain maximum amounts determined under the Code. Employee contributions are invested in various mutual funds according to the directions of the employee. Beginning September 1, 1998, the Company elected to match employee contributions to the 401(k) Plan in an amount per employee up to one-third of such employee's contribution but in no event greater than 2% of the portion of such employee's annual salary eligible for 401(k) Plan benefits. The Company's 401(k) plan expense was approximately $61,000, $53,000, and $57,000 for the years ended December 31, 2003, 2002, and 2001.

Note 18: Fair Value of Financial Instruments

Statement of Financial Accounting Standard No. 107, "Disclosures About Fair Value of Financial Instruments" (SFAS 107) requires disclosure of fair value information about certain financial instruments, whether assets, liabilities, or off-balance-sheet commitments, if practicable. The following methods and assumptions were used to estimate the fair value of each class of financial instrument. Fair value estimates that were derived from broker quotes cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument.

(a) Investments

The Company's investments are recorded at the estimated fair value of such investments.

(b) Servicing fee receivable

The fair value of the servicing fee receivable is estimated based upon expected future service fee income cash flows discounted at a rate that approximates that currently offered for instruments with similar prepayment and risk characteristics.

(c) Floating rate borrowings

Due to the short-term nature of these instruments, the carrying amount approximates fair value.

(d) Commitments to extend credit

The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and present creditworthiness of the counter parties. For fixed rate loan commitments, fair value also includes a consideration of the difference between the current levels of interest rates and the committed rates. At December 31, 2003 and 2002, the estimated fair value of these off-balance-sheet instruments was not material.

(e) Interest rate cap agreements

The fair value is estimated based on market prices or dealer quotes. At December 31, 2003 and December 31, 2002, the estimated fair value of these off-balance-sheet instruments was not material.

(f) Fixed rate borrowings

The fair value of the debentures payable to the SBA is estimated based on current market interest rates for similar debt.

	December 31, 2003		*December 31, 2002*	
	Carrying Amount	*Fair Value*	*Carrying Amount*	*Fair Value*
Financial Assets				
Investments	**$382,773,000**	**$382,773,000**	$360,752,000	$360,752,000
Cash	**47,676,000**	**47,676,000**	35,369,000	35,369,000
Servicing fee receivable	**2,663,000**	**2,663,000**	2,838,000	2,838,000
Financial Liabilities				
Floating rate debt	**230,519,000**	**230,519,000**	180,608,000	180,608,000
Fixed rate debt	**56,935,000**	**56,935,000**	70,159,000	70,159,000

Note 19: MB Regulatory Guidelines

MB is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on MB's and our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, banks must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. MB's capital amounts and classification are also subject to qualitative judgments by the bank regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require MB to maintain minimum amounts and ratios as defined in the regulations (set forth in the table below). Additionally, as conditions of granting MB's application for federal deposit insurance, the FDIC ordered that beginning paid-in-capital funds of not less than $22,000,000 be provided, and that a ratio of tier 1 capital to total assets of not less than fifteen percent and an adequate allowance for loan losses shall be maintained throughout the first three years of operation. The maintenance of a 15% tier 1 leverage capital ratio is implemented based upon MB's proposed concentration level of loans to finance taxicab medallions and related assets of up to 300 percent of capital. Management believes, as of December 31, 2003, that MB meets all capital adequacy requirements to which it is subject.

MB's actual and the regulatory minimum capital amounts and ratios are presented in the following table:

As of December 31, 2003	*Actual*		*Minimum of Capital Adequacy Purposes*		*Minimum to be well Capitalized Under Prompt Corrective Action Provisions*	
Tier 1 capital of average assets	$21,444,217	451%	$190,256	4.0%	$237,820	5.0%
Tier 1 to risk-weighted assets	21,444,217	431	199,094	4.0	298,641	6.0
Total capital to risk-weighted assets	$21,444,217	431	$398,187	8.0	$497,734	10.00%

Consolidated Schedule of Investments

December 31, 2003	*# Of Loans*	*Balance Outstanding*	*Interest Rate*
	47	$ 2,440,825	0.00–1.49
	2	490,978	1.50–1.99
	3	592,646	3.50–3.74
	6	584,966	3.75–3.99
	15	3,562,025	4.00–4.24
	72	14,785,475	4.25–4.49
	32	10,149,150	4.50–4.74
	23	7,216,657	4.75–4.99
	36	8,797,246	5.00–5.24
	22	10,245,838	5.25–5.49
	117	34,474,033	5.50–5.74
	71	21,547,755	5.75–5.99
	274	50,666,604	6.00–6.24
	314	45,125,715	6.25–6.49
	296	25,717,016	6.50–6.74
	449	23,291,415	6.75–6.99
	103	15,854,813	7.00–7.24
	43	6,280,010	7.25–7.49
	52	5,205,874	7.50–7.74
	40	5,589,375	7.75–7.99
	74	6,785,253	8.00–8.24
	20	2,623,335	8.25–8.49
	48	11,307,114	8.50–8.74
	54	7,021,637	8.75–8.99
	44	4,043,345	9.00–9.24
	14	1,681,812	9.25–9.49
	38	4,253,831	9.50–9.74
	12	1,880,455	9.75–9.99
	39	4,507,993	10.00–10.24
	7	1,425,098	10.25–10.49
	38	1,231,224	10.50–10.74
	6	1,476,012	10.75–10.99
	29	1,260,226	11.00–11.24
	14	474,435	11.25–11.49
	39	2,121,350	11.50–11.74
	17	934,899	11.75–11.99
	102	11,738,855	12.00–12.24
	5	286,832	12.25–12.49
	28	973,923	12.50–12.74
	4	2,212,462	12.75–12.99
	39	11,300,521	13.00–13.24
	7	2,185,635	13.25–13.49
	6	93,588	13.50–13.74
	2	101,087	13.75–13.99
	5	376,107	14.00–14.24
	1	194	14.25–14.49
	5	292,533	14.50–14.74
	14	831,769	15.00–15.24
	1	38,392	15.50–15.74
	2	158,930	15.75–15.99
	2	77,918	16.00–16.24
	3	5,136,796	18.00–18.24
Total loans	**2,736**	**$381,451,977**	

December 31, 2003	*# Of Loans*	*Balance Outstanding*	*Interest Rate*
Unimark		$ 3,620,638	
PMC		920,252	
Micromedics		58,828	
Appliance		50,000	
Star Concession		40,000	
Total equities		**$ 4,689,718**	
Gross investments		$ 386,141,695	
Deferred loan acquisition costs		1,645,609	
Discounts on SBA section 7(a) loans		(998,033)	
Unrealized appreciation on equities		287,045	
Unrealized depreciation on loans		(7,917,791)	
Net investments		**$379,158,525**	

The accompanying notes are an integral part of this consolidated schedule.

Consolidated Schedule of Investments

December 31, 2002	# Of Loans	Balance Outstanding	Interest Rate
	19	$ 808,285	0.00–3.24%
	5	5,259,450	3.25–4.24
	42	3,835,545	4.25–4.49
	13	4,811,812	4.50–4.74
	19	3,229,039	4.75–4.99
	18	7,178,502	5.00–5.24
	14	4,774,490	5.25–5.74
	29	15,631,455	5.75–5.99
	24	6,357,025	6.00–6.24
	66	17,266,971	6.25–6.49
	117	13,480,585	6.50–6.74
	110	11,321,115	6.75–6.99
	473	24,474,435	7.00–7.24
	99	24,415,610	7.25–7.49
	103	15,635,558	7.50–7.74
	131	20,177,218	7.75–7.99
	129	21,129,437	8.00–8.24
	69	10,568,794	8.25–8.49
	122	17,258,413	8.50–8.74
	111	16,984,498	8.75–8.99
	194	15,355,255	9.00–9.24
	27	2,660,033	9.25–9.49
	75	7,264,433	9.50–9.74
	29	2,942,905	9.75–9.99
	90	4,225,015	10.00–10.24
	15	1,631,052	10.25–10.49
	167	4,662,757	10.50–10.74
	40	4,140,761	10.75–10.99
	46	2,432,989	11.00–11.24
	30	2,488,757	11.25–11.49
	52	2,723,356	11.50–11.74
	32	2,454,542	11.75–11.99
	151	22,569,682	12.00–12.24
	12	1,063,499	12.25–12.49
	29	1,753,585	12.50–12.74
	8	2,441,775	12.75–12.99
	72	20,904,671	13.00–13.24
	20	3,719,190	13.25–13.49
	33	1,017,752	13.50–13.99
	26	965,962	14.00–14.49
	16	672,794	14.50–14.99
	27	895,675	15.00–15.24
	32	2,337,816	15.50–19.49
Total loans	**2,936**	**$355,922,493**	

December 31, 2002	# Of Loans	Balance Outstanding	Interest Rate
PMC		$ 920,252	
Unimark		300,000	
Micromedics		58,828	
Appliance		50,000	
Star Concession		40,000	
Other		961	
Total equities		**$ 1,370,041**	
Gross investments		$ 357,292,534	
Deferred loan acquisition costs		1,448,955	
Discounts on SBA Section 7(a) loans		(1,537,203)	
Unrealized depreciation on loans		(6,997,426)	
Unrealized appreciation on equities		6,039,584	
Net investments		**$356,246,444**	

The accompanying notes are an integral part of this consolidated schedule.

Report of Independent Auditors

To the Board of Directors and Shareholders of Medallion Financial Corp.:

In our opinion, the accompanying consolidated balance sheets, including the consolidated schedules of investments, and the related consolidated statements of operations, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Medallion Financial Corp. and its subsidiaries (the "Company") at December 31, 2003 and 2002, the results of its operations, the changes in its shareholders' equity and its cash flows for the two years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements (hereafter referred to as "financial statements") are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements of Medallion Financial Corp. as of December 31, 2001 and for the year ended December 31, 2001, were audited by other independent accountants who have ceased operations. Those independent accountants expressed an unqualified opinion on those financial statements in their report dated April 2, 2002.

PricewaterhouseCoopers LLP

New York, New York
March 15, 2004

Price Range of Common Stock

	High	*Low*
2003		
Fourth Quarter	**$9.49**	**$6.49**
Third Quarter	**7.08**	**6.28**
Second Quarter	**7.03**	**3.70**
First Quarter	**4.82**	**3.19**
2002		
Fourth Quarter	$ 5.17	$ 3.90
Third Quarter	5.20	3.02
Second Quarter	7.20	3.64
First Quarter	9.20	7.77

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Directors and Officers

Board of Directors

Alvin Murstein
Chairman and Director
Elected 1995

Andrew Murstein
President
Elected 1997

Mario M. Cuomo
Partner
Willkie Farr & Gallagher
Elected 1996

Henry D. Jackson
Managing Director
Deutsche Bank AG
Elected 2002

Stanley Kreitman
Vice Chairman
Manhattan Associates
Elected 1996

Frederick A. Menowitz
Private Real Estate Investor
Elected 2003

David L. Rudnick
President
Century Associates Group
Elected 1996

Lowell P. Weicker, Jr.
Former Governor and
United States Senator
Elected 2003

Executive Officers and Senior Management

Alvin Murstein
Chairman and
Chief Executive Officer

Andrew Murstein
President

Brian S. O'Leary
Chief Operating Officer
and Chief Credit Officer

Larry D. Hall
Chief Financial Officer
and Senior Vice President

Michael C. Carroll
Senior Vice President
and General Counsel

Gerald J. Grossman
President
Medallion Business Credit

Michael J. Kowalsky
Executive Vice President

Marie Russo
Senior Vice President
and Secretary

John M. Taggart
Chief Executive Officer
Medallion Bank

Thomas F. Hunt, Jr.
President
Medallion Capital, Inc.

Dean R. Pickerel
Senior Vice President
Medallion Capital, Inc.

Michael Leible
President
Medallion Taxi Media, Inc

Penn Ritter
Chief Executive Officer
Business Lenders, LLC

Corporate Information

Corporate Headquarters

437 Madison Avenue
New York, NY 10022
212.328.2100

Toll Free: 877 MEDALLION

www.medallion.com

Additional Office Locations

Baltimore, MD
Boston, MA
Chicago, IL
Dallas, TX
Hartford, CT
Los Angeles, CA
Miami, FL
Minneapolis, MN
New Orleans LA
Princeton, NJ
Salt Lake City, UT
San Diego, CA
Toyko, Japan

Stock Market Information

The Common Stock of Medallion Financial Corp. began trading publicly on the Nasdaq National Market on May 23, 1996 under the symbol TAXI.

Stock Transfer Agent and Registrar

American Stock Transfer
& Trust Company
59 Maiden Lane
Plaza Level
New York, NY 10038
212.936.5100

The Transfer Agent is responsible for handling shareholder questions regarding lost stock certificates, address changes and changes of ownership or name in which shares are held.

Independent Auditors

PricewaterhouseCoopers LLP
1177 Avenue of the Americas
New York, NY 10036

Dividend Policy

Shareholders can enroll at no charge in the Company's Dividend Reinvestment Plan.

visit our new and expanded web site www.medallionfinancial.com

Medallion Financial Corp.
437 Madison Avenue, 38th Floor, New York, NY 10022
212.328.2100