IMAGISTICS INTERNATIONAL INC
Form 10-Q
November 09, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2004

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

For the transition period from _________ to _________

Commission File Number 1-16449

IMAGISTICS INTERNATIONAL INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	06-1611068
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

100 Oakview Drive Trumbull, Connecticut	06611
(Address of Principal Executive Offices)	(Zip Code)

(203) 365-7000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes |X| No |_|

Number of shares of Imagistics Common Stock, par value $0.01 per share, outstanding as of October 29, 2004: 16,316,269

IMAGISTICS INTERNATIONAL INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

IMAGISTICS INTERNATIONAL INC.

Consolidated Statements of Income
(Dollars in thousands, except per share amounts)
(Unaudited)

	For the three months ended September 30,		For the
	2004	2003	2004
Revenue:			
Sales	$ 79,589	$ 84,298	$ 237,3
Rentals	51,164	54,239	159,7
Support services	22,302	21,012	65,8
Total revenue	153,055	159,549	462,9
Cost of sales	41,113	52,328	132,4
Cost of rentals	14,159	17,952	45,2
Selling, service and administrative expenses	85,776	76,017	250,6
Operating income	12,007	13,252	34,5
Interest expense	880	4,289	2,6

Income before income taxes	11,127	8,963	31,8
Provision for income taxes	4,720	3,833	13,5
Net income	$ 6,407	$ 5,130	$ 18,2
Earnings per share:			
Basic	$ 0.40	$ 0.31	$ 1.
Diluted	$ 0.38	$ 0.30	$ 1.
Shares used in computing earnings per share:			
Basic	16,145,273	16,471,877	16,255,0
Diluted	16,796,810	17,067,336	16,948,7

See Notes to Consolidated Financial Statements

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IMAGISTICS INTERNATIONAL INC.

Consolidated Balance Sheets
(Dollars in thousands, except per share amounts)
(Unaudited)

	September 3 2004
Assets	
Current assets:	
Cash	$ 12,259
Accounts receivable, net of allowances of $15,537 and $10,575 at September 30, 2004 and December 31, 2003, respectively	111,112
Accrued billings	27,756
Inventories	91,218
Current deferred taxes on income	28,385
Other current assets and prepaid expenses	4,635
Total current assets	275,365
Property, plant and equipment, net	57,756
Rental equipment, net	63,649
Goodwill	65,881
Other assets	5,004
Total assets	$ 467,655
Liabilities and Stockholders' Equity	
Current liabilities:	
Current portion of long-term debt	$ 545
Accounts payable and accrued liabilities	87,635
Advance billings	15,310

Total current liabilities	103,490
Long-term debt	71,495
Deferred taxes on income	19,916
Other liabilities	3,354
Total liabilities	198,255
Commitments and contingencies (see Note 8)	
Stockholders' equity:	
Preferred stock ($1.00 par value; 10,000,000 shares authorized, none issued)	--
Common stock ($0.01 par value; 150,000,000 shares authorized, 19,992,656 and 19,871,061 issued at September 30, 2004 and December 31, 2003, respectively)	200
Additional paid-in-capital	297,572
Retained earnings	53,243
Treasury stock, at cost (3,627,676 and 3,096,878 shares at September 30, 2004 and December 31, 2003, respectively)	(82,746
Unearned compensation	(1,109
Accumulated other comprehensive income	2,240
Total stockholders' equity	269,400
Total liabilities and stockholders' equity	$ 467,655

See Notes to Consolidated Financial Statements

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IMAGISTICS INTERNATIONAL INC.

Consolidated Statements of Cash Flows
(Dollars in thousands)
(Unaudited)

	For the nine months ended September 30,	
	2004	2003
Cash flows from operating activities:		
Net income	$ 18,262	$ 14,922
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	49,763	56,547
Provision for bad debt	10,417	5,686
Provision for inventory obsolescence	2,736	5,147
Deferred taxes on income	(2,196)	4,195
Change in assets and liabilities, net of acquisitions:		
Accounts receivable	(12,114)	7,015
Accrued billings	(6,894)	(1,383)
Inventories	(5,656)	3,664
Other current assets and prepaid expenses	226	2,088
Accounts payable and accrued liabilities	4,986	(14,720)
Advance billings	(1,504)	(1,343)
Other, net	(601)	2,552
Net cash provided by operating activities	57,425	84,370

Cash flows from investing activities:		
Expenditures for rental equipment assets	(34,802)	(28,022)
Expenditures for property, plant and equipment	(11,604)	(13,679)
Acquistions, net of cash acquired	(12,202)	(4,139)
Net cash used in investing activities	(58,608)	(45,840)
Cash flows from financing activities:		
Exercises of stock options, including sales under employee stock purchase plan	2,389	1,964
Purchases of treasury stock	(20,476)	(26,186)
Repayments under term loan	(409)	(20,562)
Net borrowings under revolving credit facility	9,000	--
Net cash used in financing activities	(9,496)	(44,784)
Decrease in cash	(10,679)	(6,254)
Cash at beginning of period	22,938	31,325
Cash at end of period	$ 12,259	$ 25,071

See Notes to Consolidated Financial Statements

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IMAGISTICS INTERNATIONAL INC.
Notes to Consolidated Financial Statements
(Dollars in thousands, except per share amounts and as otherwise indicated)
(Unaudited)

1. Background and Basis of Presentation

Background

Imagistics International Inc. (the "Company" or "Imagistics") is a large direct sales, service and marketing organization offering business document imaging and management solutions, including copiers, multifunctional products and facsimile machines, in the United States, Canada and United Kingdom. The Company's primary customers include large corporate customers known as national accounts, government entities and mid-size and regional businesses known as commercial accounts. Multifunctional products, often referred to as MFPs, offer the multiple functionality of printing, copying, scanning and faxing in a single unit. In addition, the Company offers a range of document imaging options including digital, analog, color and/or networked products and systems.

On December 11, 2000, the board of directors of Pitney Bowes Inc. ("Pitney Bowes") initiated a plan to spin-off substantially all of its office systems businesses to its stockholders as an independent publicly traded company. On December 3, 2001, Imagistics was spun off from Pitney Bowes pursuant to a contribution by Pitney Bowes of substantially all of its United States office systems businesses to the Company and a distribution of the stock of the Company to stockholders of Pitney Bowes based on a distribution ratio of 1 share of Imagistics common stock for every 12.5 shares of Pitney Bowes common stock held at the close of business on November 19, 2001 (the "Distribution").

The Company was incorporated in Delaware on February 28, 2001 as Pitney Bowes Office Systems, Inc., a wholly owned subsidiary of Pitney Bowes. On that date, 100 shares of the Company's common stock, par value $0.01 per share, were authorized, issued and outstanding. On October 12, 2001, the Company changed its name to Imagistics International Inc. At the Distribution, the Company's authorized capital stock consisted of 10,000,000 shares of preferred stock, par value $1.00 per share and 150,000,000 shares of common stock, par value $0.01 per share. The Company issued 19,463,007 shares of common stock in connection with the Distribution described above.

Pitney Bowes received tax rulings from the Internal Revenue Service stating that, subject to certain representations, the Distribution qualified as tax-free to Pitney Bowes and its stockholders for United States federal income tax purposes.

Basis of presentation

The unaudited interim consolidated financial statements of the Company have been prepared in accordance with the rules and regulations of the United States Securities and Exchange Commission (the "SEC") and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of the management of the Company, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of results of operations, financial position and cash flows as of and for the periods presented have been included. Certain previously reported amounts have been reclassified to conform to the current year presentation.

The Company believes that the disclosures contained in the unaudited interim consolidated financial statements are adequate to keep the information presented from being misleading. The results for the three and nine months ended September 30, 2004 are not necessarily indicative of the results for the full year. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's latest Annual Report on Form 10-K for the year ended December 31, 2003 filed with the SEC on March 12, 2004.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. Summary of Significant Accounting Policies

Revenue recognition

Revenue on equipment and supplies sales is recognized when contractual obligations have been satisfied, title and risk of loss have been transferred to the customer and collection of the resulting receivable is reasonably assured. For copier/MFP equipment, the satisfaction of contractual obligations and the passing of title and risk of loss to the customer occur upon the installation of the equipment at the customer location. For facsimile equipment and facsimile supplies, the satisfaction of contractual obligations and the passing of title and risk of loss to the customer occur upon the delivery of the facsimile equipment and the facsimile supplies to the customer location. The Company records a provision for estimated sales returns and other allowances based upon historical experience.

Rental contracts, which often include supplies, are generally for an initial term of three years with automatic renewals unless the Company receives prior notice of cancellation. Under the terms of rental contracts, the Company bills its customers a flat periodic charge and/or a usage-based fee. Revenues related to these contracts are recognized each month as earned, either using the straight-line method or based upon usage, as applicable. The Company records a provision for estimated usage adjustments on rental contracts based upon historical experience.

Support services contracts, which often include supplies, are generally for an initial term of one year with automatic renewals unless the Company receives prior notice of cancellation. Under the terms of support services contracts, the Company bills its customers either a flat periodic charge and/or a usage-based fee. Revenues related to these contracts are recognized each month as earned, either using the straight-line method or based upon usage, as applicable. The Company records a provision for estimated usage adjustments on service contracts based upon historical experience.

Certain rental and support services contracts provide for invoicing in advance, generally quarterly. Revenue on contracts billed in advance is deferred and recognized as earned revenue over the billed period. Certain rental and support services contracts provide for invoicing in arrears, generally quarterly. Revenue on contracts billed in arrears is accrued and recognized in the period in which it is earned.

The Company enters into arrangements that include multiple deliverables, which typically consist of the sale of equipment with a support services contract. The Company accounts for each element within an arrangement with multiple deliverables as separate units of accounting. Revenue is allocated to each unit of accounting based on the residual method, which requires the allocation of the revenue based on the fair value of the undelivered items. Fair value of support services is primarily determined by reference to renewal pricing of support services contracts when sold on a stand-alone basis.

Accounts receivable

Accounts receivable are stated at net realizable value by recording allowances for those accounts receivable amounts that the Company believes are uncollectible. The Company's estimate of losses is based on prior collection experience and includes evaluating the credit worthiness of each of the Company's customers, analyzing historical bad debt write-offs and reviewing the aging of the receivables. The Company's allowance for doubtful accounts includes amounts for specific accounts that it believes are uncollectible, as well as amounts that have been computed by applying certain percentages based on historic loss trends, to certain accounts receivable aging categories and estimated amounts relating to delinquencies associated with the changes in the Company's billing policies and invoice format resulting from the implementation of the Company's enterprise resource planning ("ERP") system.

Inventories

Inventories are valued at the lower of cost or market. Provisions, when required, are made to reduce excess and obsolete inventories to their estimated net realizable values. Inventory provisions are calculated using management's best estimates of inventory value based on the age of the inventory, quantities on hand compared with historical and projected usage and current and anticipated demands.

IMAGISTICS INTERNATIONAL INC.
Notes to Consolidated Financial Statements - (continued)

Rental equipment

Rental equipment is comprised of equipment on rent to customers and is depreciated on the straight-line method over the estimated useful life of the equipment. Copier/MFP equipment is depreciated over three years and facsimile equipment placed in service prior to October 1, 2003 is depreciated over five years. Facsimile equipment placed in service on or after October 1, 2003 is depreciated over three years.

Stock-based employee compensation

The Company accounts for its stock-based employee compensation plans under the recognition and measurement provisions of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and related interpretations. The Company recognizes stock-based compensation expense on its restricted stock on a straight-line basis over the vesting period. The Company does not recognize stock-based compensation expense on its stock options in its reported results as all options granted, other than adjustment options in connection with the Distribution, had an exercise price equal to the market value of the underlying common stock on the date of grant.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," to stock-based employee compensation:

	For the three months ended September 30,	
	2004	2003
Net income, as reported	$ 6,407	$ 5,130
Add: Stock-based compensation expense included in net income, net of related tax effects	471	423
Deduct: Total stock-based compensation expense based on the fair value method, net of related tax effects	(1,147)	(956)
Pro forma net income	$ 5,731	$ 4,597
Basic earnings per share:		
As reported	$ 0.40	$ 0.31
Pro forma	$ 0.35	$ 0.28
Diluted earnings per share:		
As reported	$ 0.38	$ 0.30
Pro forma	$ 0.34	$ 0.27

3. Supplemental Information

Inventories

Inventories consisted of the following at September 30, 2004 and December

31, 2003:

	September 30, 2004	December 31, 2003
Finished products	$48,607	$50,726
Supplies and service parts	42,611	35,408
Total inventories	$91,218	$86,134

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IMAGISTICS INTERNATIONAL INC.
Notes to Consolidated Financial Statements - (continued)

Fixed assets and rental equipment assets

Fixed assets and rental equipment assets consisted of the following at September 30, 2004 and December 31, 2003:

	September 30, 2004	December 31, 2003
Land	$ 1,356	$ 1,356
Buildings and leasehold improvements	12,125	10,976
Machinery and equipment	24,275	23,474
Computers and software	56,413	47,356
Property, plant and equipment, gross	94,169	83,162
Accumulated depreciation	(36,413)	(29,958)
Property, plant and equipment, net	$ 57,756	$ 53,204
Rental equipment, gross	$ 313,592	$ 333,563
Accumulated depreciation	(249,943)	(266,384)
Rental equipment, net	$ 63,649	$ 67,179

Depreciation and amortization expense was $16.1 million and $49.8 million for the three and nine months ended September 30, 2004, respectively, and $18.5 million and $56.5 million for the three and nine months ended September 30, 2003, respectively. Unamortized software costs totaled $32.5 million as of September 30, 2004 and $27.0 million as of December 31, 2003. Amortization expense on account of capitalized software totaled $1.0 million and $3.0 million for the three and nine months ended September 30, 2004, respectively, and $0.2 million and $0.6 million for the three and nine months ended September 30, 2003, respectively.

Current liabilities

Accounts payable and accrued liabilities consisted of the following at September 30, 2004 and December 31, 2003:

	September 30, 2004	December 31, 2003
Accounts payable	$32,846	$33,237
Income taxes payable	8,669	6,743
Group medical insurance payable	7,137	8,068
Accrued compensation and benefits	8,543	8,321
Other non-income taxes payable	5,856	6,626
Other accrued liabilities	24,584	16,296
Accounts payable and accrued liabilities	$87,635	$79,291

Comprehensive income

Comprehensive income consisted of the following for the three and nine months ended September 30, 2004 and 2003:

	For the three months ended September 30,		For the nine month September 30	
	2004	2003	2004	
Net income	$6,407	$5,130	$18,262	$1
Translation adjustment	399	864	478	
Unrealized gain on cash flow hedges	--	791	--	
Reclassification adjustment for realized loss on cash flow hedges included in net income	--	2,841	--	
Comprehensive income	$6,806	$9,626	$18,740	$2

Treasury stock

The following table summarizes the Company's treasury stock transactions:

	Treasury stock	
	Shares	Cost
Balance at December 31, 2003	3,096,878	$ 62,783
Purchases under stock buy back program	554,000	20,476
Sales to employees under employee stock purchase plan	(23,202)	(513)

Balance at September 30, 2004	3,627,676	$ 82,746

Cash flow information

Cash paid for income taxes was $14.0 million and $12.5 million for the nine months ended September 30, 2004 and 2003, respectively. Cash paid for interest was $2.0 million and $7.3 million for the nine months ended September 30, 2004 and 2003, respectively.

4. Business Segment Information

The Company operates in two reportable segments based on geographic area: North America and the United Kingdom. Revenues are attributed to geographic regions based on where the revenues are derived.

	For the three months ended September 30,		For the nine months en September 30,	
	2004	2003	2004	2003
Revenues:				
North America	$148,085	$154,778	$446,845	$451,1
United Kingdom	4,970	4,771	16,059	15,2
Total revenues	$153,055	$159,549	$462,904	$466,3
Income before income taxes:				
North America	$ 10,511	$ 8,172	$ 29,382	$ 23,0
United Kingdom	616	791	2,434	2,7
Total income before income taxes	$ 11,127	$ 8,963	$ 31,816	$ 25,7

Revenues from Pitney Bowes, substantially all of which are generated in the North America segment, consisted of the following for the three and nine months ended September 30, 2004 and 2003:

	For the three months ended September 30,		For the nine months en September 30,	
	2004	2003	2004	2003
Revenues from Pitney Bowes:				
Pitney Bowes of Canada	$ 1,688	$ 8,714	$ 13,435	$ 21,39
Other subsidiaries of Pitney Bowes	6,364	5,849	17,366	19,21
Sub-total	8,052	14,563	30,801	40,60
Pitney Bowes Credit Corporation	25,003	23,470	69,513	68,83
Total	$33,055	$38,033	$100,314	$109,43

For the periods presented, Pitney Bowes Credit Corporation ("PBCC") was the Company's primary lease vendor and the Company expects PBCC to continue as the Company's primary lease vendor in the future. However, if PBCC were to cease being the Company's primary lease vendor, the Company is confident that it could obtain a replacement primary lease vendor with substantially the same lease terms as PBCC. No other single customer or controlled group represented 10% or more of the Company's revenues.

The following tables show identifiable long-lived assets and total assets for each reportable segment at September 30, 2004 and December 31, 2003.

	September 30, 2004	December 31, 2003
Identifiable long-lived assets:		
North America	$189,193	$176,157
United Kingdom	3,097	3,954
Total identifiable long-lived assets	$192,290	$180,111
Total assets:		
North America	$451,775	$428,885
United Kingdom	15,880	17,847
Total assets	$467,655	$446,732

Identifiable long-lived assets in North America included goodwill of $65.9 million and $55.4 million at September 30, 2004 and December 31, 2003, respectively.

Concentrations

Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers and relatively small account balances within the majority of the Company's customer base and their dispersion across different businesses. The Company periodically evaluates the financial strength of its customers and believes that its credit risk exposure is limited.

Most of the Company's product purchases are from overseas vendors, the majority of which are from a limited number of Japanese suppliers who operate manufacturing facilities in Asia. Although the Company currently sources products from a number of manufacturers throughout the world, a significant portion of new copier/MFP equipment is currently obtained from four Japanese suppliers. If these suppliers were unable to deliver products for a significant period of time, the Company would be required to find replacement products from an alternative supplier or suppliers, which may not be available on a timely or cost effective basis. The Company's operating results could be adversely affected if a significant supplier was unable to deliver sufficient product.

5. Earnings Per Share Calculation

Basic earnings per share was calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the applicable period. Diluted earnings per share was calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding plus all dilutive common stock equivalents outstanding during the applicable period. The calculation of diluted earnings per share did not include shares underlying approximately 111,775 and 2,700 options for the three months ended September 30, 2004 and 2003, respectively, since they were antidilutive for the periods presented. The calculation of diluted earnings per share did not include shares underlying approximately 17,900 and 7,900 options for the nine months ended September 30, 2004 and 2003, respectively, since they were antidilutive for the periods presented.

A reconciliation of the basic and diluted earnings per share computation is as follows:

	For the three months ended September 30,	
	2004	2003
Net income available to common stockholders	$ 6,407	$ 5,130
Weighted average common shares for basic earnings per share	16,145,273	16,471,877
Add: dilutive effect of restricted stock	229,141	186,106
Add: dilutive effect of stock options	422,396	409,353
Weighted average common shares and equivalents for diluted earnings per share	16,796,810	17,067,336
Basic earnings per share	$ 0.40	$ 0.31
Diluted earnings per share	$ 0.38	$ 0.30

6. Goodwill and Goodwill Amortization

The Company accounts for goodwill in accordance with SFAS No. 142 "Goodwill and Other Intangible Assets," which requires that goodwill and certain other intangible assets having indefinite lives no longer be amortized to earnings, but instead be tested for impairment annually and on an interim basis if events or changes in circumstances indicate that goodwill might be impaired. The Company performed its annual test for impairment as of October 1, 2004 using the discounted cash flow valuation method. There was no impairment to the value of the Company's recorded goodwill. The carrying value of goodwill as of September 30, 2004 increased $10.1 million as a result of the Company's recent acquisitions (see Note 10). The carrying value of goodwill of $65.9 million as of September 30, 2004 is attributable to the North America geographic segment.

7. Long-Term Debt

Long-term debt consisted of the following at September 30, 2004 and December 31, 2003:

	September 30, 2004	December 31, 2003
Revolving Credit Facillity	$ 19,000	$ 10,000
Term Loan	53,040	53,448
Less: current maturities	(545)	(545)
Total long-term debt	$ 71,495	$ 62,903

On November 9, 2001, the Company entered into a Credit Agreement with a group of lenders (the "Credit Agreement") that provided for secured borrowings and the issuance of letters of credit in an aggregate amount not to exceed $225.0 million, comprised of a $125.0 million Revolving Credit Facility (the "Revolving Credit Facility") and a $100.0 million Term Loan (the "Term Loan"). The Credit Agreement required the Company to manage its interest rate risk with respect to at least 50% of the aggregate principal amount of the Term Loan for a period of at least 36 months. Accordingly, the Company entered into two interest rate swap agreements in notional amounts of $50.0 million and $30.0 million to convert the variable interest rate payable on the Term Loan to a fixed interest rate in order to hedge the exposure to variability in expected future cash flows. These interest rate swap agreements were designated as cash flow hedges.

On March 19, 2002, the Credit Agreement was amended to increase the total amount of the Company's stock permitted to be repurchased from $20.0 million to $30.0 million. On July 19, 2002, the Credit Agreement was amended to increase the total amount of the Company's stock permitted to be repurchased from $30.0 million to $58.0 million and to reduce the Term Loan interest rates to LIBOR plus a margin of from 2.75% to 3.75%, from LIBOR plus a margin of from 3.50% to 3.75%, depending on the Company's leverage ratio, or the Fleet Bank base lending rate plus a margin of from 1.75% to 2.75%, from the Fleet Bank base lending rate plus a margin of from 2.50% to 2.75%, depending on the Company's leverage ratio. On March 5, 2003, the Credit Agreement was amended to increase the total amount of the Company's stock permitted to be repurchased from $58.0 million to $78.0 million, to reduce the minimum earnings before interest, taxes, depreciation and amortization covenant to $100.0 million for the remainder of the term of the Credit Agreement and to revise the limitation on capital expenditures. On May 16, 2003, the Credit Agreement was amended (the "Fourth Amendment") to reduce the aggregate amount of the Revolving Credit

Facility from $125.0 million to $95.0 million, to delete the requirement that the Company maintain interest rate protection with respect to at least 50% of the aggregate principal amount of the Term Loan, to reduce and fix the Term Loan interest rate to LIBOR plus a margin of 2.25%, from LIBOR plus a margin of from 2.75% to 3.75%, depending on the Company's leverage ratio, or to the Fleet Bank base lending rate plus a margin of 1.25%, from the Fleet Bank base lending rate plus a margin of from 1.75% to 2.75%, depending on the Company's leverage ratio, to reduce and fix the Revolving Credit Facility interest rate to LIBOR plus a margin of 1.25%, from LIBOR plus a margin of from 2.25% to 3.00%, depending on the Company's leverage ratio, or to the Fleet Bank base lending rate plus a margin of 0.25%, from the Fleet Bank base lending rate plus a margin of from 1.25% to 2.00%, depending on the Company's leverage ratio and to fix the commitment fee at 0.375% on the average daily unused portion of the Revolving Credit Facility from 0.375% to 0.500% on the average daily unused portion of the Revolving Credit Facility, depending on the Company's leverage ratio. On May 7, 2004, the Credit Agreement was amended (the "Fifth Amendment") to increase the amount of the Company's stock permitted to be repurchased from $78.0 million to $108.0 million, to increase the aggregate amount of acquisition consideration payable for acquisitions from $30.0 million to $60.0 million and to remove the requirement for annual borrowing base audits so long as $50.0 million or more of borrowings are available under the Credit Agreement and the fixed charge ratio, as defined in the Fifth Amendment, is 2.0 or higher. Effective June 1, 2004, the Credit Agreement was further amended (the "Sixth Amendment") to reduce and fix the Term Loan interest rate to LIBOR plus a margin of 1.25%, from LIBOR plus a margin of 2.25%, or to the Fleet Bank base lending rate plus a margin of 0.25%, from the Fleet Bank base lending rate plus a margin of 1.25%.

During the third quarter of 2003, the Company revised its cash flow estimates and prepaid $20.0 million of the amount outstanding under the Term Loan. In light of this revision, the deletion of the interest rate protection requirement resulting from the Fourth Amendment and the Company's consistent historical positive cash flow and near term estimated operating and capital expenditure requirements, the Company disposed of its two interest rate swap agreements in the notional amounts of $50.0 million and $22.0 million. Accordingly, the Company reclassified $2.8 million from accumulated other comprehensive income (loss) into interest expense because it was no longer probable that the hedged forecasted transactions would occur.

8. Commitments and Contingencies

Guarantees and indemnifications

The Company has applied the disclosure provisions of FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Direct Guarantees of Indebtedness of Others," to its agreements that contain guarantee or indemnification clauses. FIN No. 45 expands the disclosure provisions required by SFAS No. 5, "Accounting for Contingencies," by requiring the guarantor to disclose certain types of guarantees, even if the likelihood of requiring the guarantor's performance is remote. The following is a description of the arrangements in which the Company is a guarantor.

In connection with the Distribution, the Company entered into certain agreements pursuant to which it may be obligated to indemnify Pitney Bowes with respect to certain matters. The Company agreed to assume all liabilities associated with the Company's business, and to indemnify Pitney Bowes for all claims relating to the Company's business. These may be claims by or against Pitney Bowes or the Company relating to, among other things, contractual rights under vendor, insurance or other contracts, trademark, patent and other intellectual property rights, equipment, service or payment disputes with customers and disputes with employees.

The Company and Pitney Bowes entered into a tax separation agreement, which governs the Company's and Pitney Bowes' respective rights, responsibilities and obligations after the Distribution with respect to taxes for the periods ending on or before the Distribution. In addition, the tax separation agreement generally obligated the Company not to enter into any transaction that would adversely affect the tax-free nature of the Distribution for the two-year period following the Distribution, and obligates the Company to indemnify Pitney Bowes and affiliates to the extent that any action the Company takes or fails to take gives rise to a tax liability with respect to the Distribution.

It is not possible to predict the maximum potential future payments under these agreements. As of September 30, 2004, the Company has not paid any material amounts pursuant to the above indemnifications other than expenses incurred in connection with the defense and settlement of assumed claims asserted in connection with the operation of the Company in the ordinary course of business. The Company believes that if it were to incur a loss in any of these matters, such loss would not have a material adverse effect on the Company's financial position, results of operations or cash flows.

Legal matters

In connection with the Distribution, the Company agreed to assume all liabilities associated with its business, and to indemnify Pitney Bowes for all claims relating to its business. In the normal course of business, the Company has been party to occasional lawsuits relating to the Company's business. These may involve litigation or other claims by or against Pitney Bowes or the Company relating to, among other things, contractual rights under vendor, insurance or other contracts, trademark, patent and other intellectual property rights, equipment, service or payment disputes with customers and disputes with employees.

In connection with the Distribution, liabilities were transferred to the Company for matters where Pitney Bowes was a plaintiff or a defendant in lawsuits, relating to the business or products of the Company. The Company has not recorded liabilities for loss contingencies related to these and other subsequent proceedings since the ultimate resolutions of the legal matters cannot be determined and a minimum cost or amount of loss cannot be reasonably estimated. In the opinion of the Company's management, none of these proceedings, individually or in the aggregate, should have a material adverse effect on the Company's financial position, results of operations or cash flows.

Risks and uncertainties

In October 2003, the Company implemented Phase II of its ERP system, consisting of order management, order fulfillment, billing, cash collection, service management and sales compensation, which replaced the information technology services provided by Pitney Bowes under the transition services agreement. The Company believes that it has satisfactorily resolved the issues relating to delays in product shipments and service responsiveness initially experienced in connection with the ERP system implementation. However, as the Company stabilizes the ERP system, it continues to experience certain processing inefficiencies affecting billings, which in turn have negatively impacted accounts receivable levels and the calculation of sales compensation. In addition, delays in the implementation of certain automated tools to assist in collection activities have contributed to the increase in accounts receivable. The Company's ability to return accounts receivable to historical levels has been impacted by delays in collections resulting from customer inquiries relating to changes to billing policies and invoice format, an increase in billing adjustment activity, the temporary suspension of account statement and collection notice mailings on delinquent amounts and delays in processing customer invoicing. In August 2004, the Company resumed mailing account statements and delinquent account notices to customers. The Company believes that much of the increase in accounts receivable will not be permanent. However, a portion of the Company's increase in accounts receivable results from the standardization of its billing practices and schedules across all product lines and the continuing shift in product mix towards the copier/MFP product line, for which the usage-based billing is more complex. The Company believes that the portion of the increase in accounts receivable related to changes in billing schedules and product mix represents a permanent structural change. The Company has provided for collection losses on the increase in accounts receivable at rates higher than its historical experience. However, if collection losses related to accounts receivable are higher than the amounts provided, the Company would recognize an additional increase in its provision for bad debt.

With respect to the calculation of sales compensation, the Company continues to work through certain of the processing inefficiencies resulting in data inaccuracies and potential inaccuracies in calculated sales compensation. Due to these issues, the Company has continued to apply alternate methodologies to calculate and pay sales compensation. The Company believes that it has recognized the proper amount of sales compensation. However, there is a potential that the resolution of these data inaccuracies could result in additional expense for sales compensation.

The Company remains engaged in a period of stabilization and clean up, as is typical of a large ERP system implementation. During the fourth quarter of 2004 and the first quarter of 2005, the Company will be implementing Phase III of its ERP system, primarily comprised of certain automated tools to assist in invoice dispute resolution and collection activities. The Company believes that the implementation of these automated tools will assist the Company's progress in collecting its accounts receivable beginning in the fourth quarter of 2004. In the month of October, the Company experienced certain unforeseen system performance issues, which have resulted in delays in invoicing the Company's customers. While the Company believes that the performance issues are temporary, the Company expects to experience delays in customer cash receipts negatively impacting accounts receivable during the fourth quarter as a result of the delayed October invoicing. The Company believes it has identified the causes of these performance issues and that it has implemented appropriate remedies.

The Company anticipates that it will resolve the issues related to its ERP system implementation that are impacting its customer billings, accounts receivable and sales compensation. However, if the Company is unable to do so in a reasonable time frame, these issues could have a negative impact on customer and employee satisfaction and retention, which could result in a potential loss of business. Although no assurance can be given that these efforts related to customer billings, accounts receivable and sales compensation will be successful in the time periods expected, other than the temporary increase in working capital requirements, the Company does not anticipate that these issues will have a material adverse effect on its financial position, results of operations or future cash flows.

The Company is in the process of evaluating and documenting its internal control systems and performing the testing required to comply with Section 404 of the Sarbanes-Oxley Act of 2002. Section 404 requires management to document, test and report on the Company's internal controls over financial reporting in its Annual Report on Form 10-K for the year ending December 31, 2004 and for the Company's Independent Auditors to attest to management's assertions. Over the past twelve months, the Company implemented a new ERP system, which has significantly impacted customer billings, accounts receivable and sales compensation. The Company is in a period of stabilization and clean up and additional system implementations are being undertaken in the fourth quarter of 2004 to address issues encountered to date. Management intends to complete its assessment of internal controls over financial reporting in order to comply with the Section 404 requirements. However, during the course of the Company's testing the Company may identify deficiencies or weaknesses and can provide no assurance that any remediation required will be successful or completed in the time required.

9. Distribution Agreements

The Company and Pitney Bowes entered into a transition services agreement that provided for Pitney Bowes to provide certain services to the Company for a limited time following the Distribution. These services were provided at cost and included information technology, computing, telecommunications, certain accounting, field service of equipment and dispatch call center services. The Company and Pitney Bowes had agreed to an extension until December 31, 2003, of the transition services agreement as it related to information technology and related services. Services provided under this extension were at negotiated market rates. Except for field service of equipment, all of the services provided by Pitney Bowes under these agreements have ceased in accordance with the terms of the agreements.

The Company and Pitney Bowes entered into a one-year service agreement on an arms-length basis relating to field service of equipment in certain remote geographic locations not covered by the Company's direct service organization. This agreement, the initial term of which expired on July 1, 2004, had been extended under the same terms and conditions, through September 30, 2004. Effective October 1, 2004, the Company and Pitney Bowes entered into a three-year service agreement under similar terms and conditions. This agreement expires on September 30, 2007. Services provided under this agreement are at negotiated prices.

The Company paid Pitney Bowes $1.3 million and $3.9 million for the three and nine months ended September 30, 2004, respectively, in connection with field service of equipment. The Company paid Pitney Bowes $3.3 million and $13.7 million for the three and nine months ended September 30, 2003, respectively, in connection with the transition services agreement including field service of equipment and other administrative expenses.

The Company also entered into certain other agreements covering intellectual property, commercial relationships and leases and licensing arrangements. The pricing terms of the products and services covered by the other commercial agreements reflect negotiated prices.

The Company and Pitney Bowes entered into a tax separation agreement, which governs the Company's and Pitney Bowes' respective rights, responsibilities and obligations after the Distribution with respect to taxes for the periods ending on or before the Distribution. In addition, the tax separation agreement generally obligated the Company not to enter into any transaction that would adversely affect the tax-free nature of the Distribution for the two-year period following the Distribution, and obligates the Company to indemnify Pitney Bowes and affiliates to the extent that any action the Company takes or fails to take gives rise to a tax liability with respect to the Distribution.

10. Acquisitions

Effective August 30, 2004, the Company acquired of all of the stock and business of an independent dealer of copier and multifunctional equipment and related support services in Canada, to continue to expand the Company's geographic sales and service capabilities. The aggregate purchase price was $2.4 million, of which $0.4 million was allocated to the net liabilities assumed at the date of acquisition and $2.8 million was allocated to goodwill.

Effective June 15, 2004, the Company acquired substantially all of the assets and business of an independent dealer of copier and multifunctional equipment and related support services in the United States, to expand the Company's geographic sales and service capabilities. The aggregate purchase price was $7.4 million, consisting of $6.0 million cash paid at closing, $0.3 million payable 120 days from closing and four equal annual installments of $0.3 million payable June 15, 2005 through June 15, 2008. Of the aggregate purchase price, $2.3 million was allocated to the assets acquired and liabilities assumed at the date of acquisition and $5.1 million was allocated to intangible and other assets, of which $3.8 million was allocated to goodwill.

Effective March 16, 2004, the Company acquired substantially all of the assets and business of an independent dealer of copier and multifunctional equipment and related support services in Canada, to continue to expand the Company's geographic sales and service capabilities. The aggregate purchase price was $4.4 million, consisting of $3.8 million cash paid at closing, $0.3 million payable 120 days from closing and $0.3 million payable 24 months after closing. Of the aggregate purchase price, $0.6 million was allocated to the assets acquired and liabilities assumed at the date of acquisition and $3.8 million was allocated to intangible and other assets, of which $3.5 million was allocated to goodwill.

Effective August 30, 2003, the Company completed its acquisition of substantially all of the assets and business of an independent dealer of copier and multifunctional equipment and related support services in the United States, to expand the Company's geographic sales and service capabilities. The aggregate purchase price was $4.1 million, of which $0.8 million was allocated to the assets acquired and liabilities assumed at the date of acquisition and $3.3 million was allocated to intangible and other assets, of which $2.8 million was allocated to goodwill.

The above acquisitions were accounted for using the purchase method of accounting and, accordingly, the results of the acquired businesses have been included in the Company's consolidated financial statements from the respective dates of acquisition.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the audited consolidated financial statements and the notes thereto, included in our latest Annual Report on Form 10-K for the year ended December 31, 2003 filed with the United States Securities and Exchange Commission on March 12, 2004, as well as the unaudited consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q. This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Please see "Risk Factors That Could Cause Results To Vary" and "Special Note About Forward-Looking Statements" for a discussion of the uncertainties, risks and assumptions associated with these forward-looking statements. Our actual results could differ materially from those forward-looking statements discussed in this section. For the purposes of the following discussion, unless the context otherwise requires, "Imagistics International Inc.," "Imagistics," "We" and "Our," refers to Imagistics International Inc. and subsidiaries.

OVERVIEW

Imagistics is a direct sales, service and marketing organization offering business document imaging and management solutions, including copiers, multifunctional products and facsimile machines, in the United States, Canada and United Kingdom. Our primary customers include large corporate customers known as national accounts, government entities and mid-size and regional businesses known as commercial accounts. Multifunctional products, often referred to as MFPs, offer the multiple functionality of printing, copying, scanning and faxing in a single unit. In addition, we offer a range of document imaging options including digital, analog, color and/or networked products and systems.

Our strategic vision is to become the leading independent direct provider of enterprise office imaging and document solutions by providing world-class products and services with unparalleled customer support and satisfaction with a focus on multiple location customers, thus building value for our shareholders, customers and employees. Our strategic initiatives include:

- Maintaining and further strengthening major account relationships,
- Expanding our product offerings through our sourcing and distribution relationships,
- Increasing outreach of our direct sales and service force to the copier/MFP market,
- Focusing on customer needs and
- Pursuing opportunistic expansion and investments.

The principal evolution in our industry and business has been the transition to networked digital copiers/MFPs, away from single-function stand-alone facsimile machines and analog copiers. This transition has resulted in decreased demand for and usage of single function facsimile equipment in the marketplace. We have responded to this market development by focusing our efforts on the growth opportunities existing in our digital copier/MFP product line. As a result, the decrease in facsimile product line revenues has been offset by an increase in our copier/MFP product line revenues.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

Revenue recognition

Revenue on equipment and supplies sales is recognized when contractual obligations have been satisfied, title and risk of loss have been transferred to the customer and collection of the resulting receivable is reasonably assured. For copier/MFP equipment, the satisfaction of contractual obligations and the passing of title and risk of loss to the customer occur upon the installation of the equipment at the customer location. For facsimile equipment and facsimile supplies, the satisfaction of contractual obligations and the passing of title and risk of loss to the customer occur upon the delivery of the facsimile equipment and the facsimile supplies to the customer location. We record a provision for estimated sales returns and other allowances based upon historical experience.

Rental contracts, which often include supplies, are generally for an initial term of three years with automatic renewals unless we receive prior notice of cancellation. Under the terms of rental contracts, we bill our customers a flat periodic charge and/or a usage-based fee. Revenues related to these contracts are recognized each month as earned, either using the straight-line method or based upon usage, as applicable. We record a provision for estimated usage adjustments on rental contracts based upon historical experience.

Support services contracts, which often include supplies, are generally for an initial term of one year with automatic renewals unless we receive prior notice of cancellation. Under the terms of support services contracts, we bill our customers either a flat periodic charge or a usage-based fee. Revenues related to these contracts are recognized each month as earned, either using the straight-line method or based upon usage, as applicable. We record a provision for estimated usage adjustments on service contracts based upon historical experience.

Certain rental and support services contracts provide for invoicing in advance, generally quarterly. Revenue on contracts billed in advance is deferred and recognized as earned revenue over the billed period. Certain rental and support services contracts provide for invoicing in arrears, generally quarterly. Revenue on contracts billed in arrears is accrued and recognized in the period in which it is earned.

We enter into arrangements that include multiple deliverables, which typically consist of the sale of equipment with a support services contract. We account for each element within an arrangement with multiple deliverables as separate units of accounting. Revenue is allocated to each unit of accounting based on the residual method, which requires the allocation of the revenue based on the fair value of the undelivered items. Fair value of support services is primarily determined by reference to renewal pricing of support services contracts when sold on a stand-alone basis.

Accounts receivable

Accounts receivable are stated at net realizable value by recording allowances for those accounts receivable amounts that we believe are uncollectible. Our estimate of losses is based on prior collection experience and includes evaluating the credit worthiness of each of our customers, analyzing historical bad debt write-offs and reviewing the aging of the receivables. Our allowance for doubtful accounts includes amounts for specific accounts that we believe are uncollectible, as well as amounts that have been computed by applying certain percentages based on historic loss trends, to certain accounts receivable aging categories and estimated amounts relating to delinquencies associated with the changes in our billing policies and invoice format resulting from the implementation of our enterprise resource planning ("ERP") system.

Inventories

Inventories are valued at the lower of cost or market. Provisions, when required, are made to reduce excess and obsolete inventories to their estimated net realizable values. Inventory provisions are calculated using management's best estimates of inventory value based on the age of the inventory, quantities on hand compared with historical and projected usage and current and anticipated demands.

Rental equipment

Rental equipment is comprised of equipment on rent to customers and is depreciated on the straight-line method over the estimated useful life of the equipment. Copier/MFP equipment is depreciated over three years and facsimile equipment placed in service prior to October 1, 2003 is depreciated over five years. Facsimile equipment placed in service on or after October 1, 2003 is depreciated over three years.

Revenues

(Dollars in thousands)

The following table shows our revenue sources by segment for the periods indicated.

	For the three months ended September 30,		For the nine months ended September 30,	
	2004	2003	2004	2003
North America	$148,085	$154,778	$446,845	$451,180
United Kingdom	4,970	4,771	16,059	15,207
Total revenue	$153,055	$159,549	$462,904	$466,387

Our revenue is generated from three lines of business: copier/MFP, facsimile and sales to Pitney Bowes of Canada. The following table shows our revenue and growth rates versus the prior year by revenue type for our three business lines, for the periods indicated. Sales to Pitney Bowes of Canada are presented separately as it operates under a separate reseller agreement. There is no rental or support service revenue associated with Pitney Bowes of Canada.

	For the three months ended September 30,				Fo
	2004		2003		200
	Revenue	Growth Rate	Revenue	Growth Rate	Revenue
Sales					
Copier/MFP products	$ 59,085	8.3%	$ 54,581	11.9%	$ 167,473
Facsimile products	18,816	(10.4%)	21,003	(10.9%)	56,426
Pitney Bowes of Canada	1,688	(80.6%)	8,714	84.4%	13,435
Total sales	79,589	(5.6%)	84,298	9.4%	237,334
Rentals					
Copier/MFP products	28,812	13.1%	25,465	5.8%	82,313
Facsimile products	22,352	(22.3%)	28,774	(15.4%)	77,441

Total rentals	51,164	(5.7%)	54,239	(6.6%)	159,754
Support services					
Copier/MFP products	20,540	7.2%	19,154	3.0%	60,441
Facsimile products	1,762	(5.2%)	1,858	(19.5%)	5,375
Total support services	22,302	6.1%	21,012	0.5%	65,816
Total revenue	$ 153,055	(4.1%)	$ 159,549	2.2%	$ 462,904

The following table shows our revenue and growth rates versus the prior year for our three business lines, for the periods indicated. Sales to Pitney Bowes of Canada are presented separately as it operates under a separate reseller agreement.

	For the three months ended September 30,				For
	2004		2003		200
	Revenue	Growth Rate	Revenue	Growth Rate	Revenue
Revenue					
Copier/MFP products	$ 108,437	9.3%	$ 99,200	8.5%	$ 310,227
Facsimile products	42,930	(16.9%)	51,635	(13.8%)	139,242
Revenue excluding Pitney Bowes of Canada	151,367	0.4%	150,835	(0.3%)	449,469
Pitney Bowes of Canada	1,688	(80.6%)	8,714	84.4%	13,435
Total revenue	$ 153,055	(4.1%)	$ 159,549	2.2%	$ 462,904

Sales to Pitney Bowes of Canada are pursuant to a reseller agreement and are at margins significantly below the typical margins on sales to our direct customers. We expect to maintain a reseller agreement with Pitney Bowes of Canada, however, we are unable to predict the future level of sales to Pitney Bowes of Canada. Although revenue, excluding sales to Pitney Bowes of Canada represents a non-GAAP financial measure, we believe it is useful to analyze revenue excluding sales to Pitney Bowes of Canada in order to better evaluate the effectiveness of our direct sales and marketing initiatives and our pricing policies.

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Results of Operations

The following table shows our statement of income data, expressed as a percentage of total revenue, for the periods indicated. The table also shows cost of sales as a percentage of sales revenue, cost of rentals as a percentage of rental revenue and our effective tax rate:

	As a % of total revenue, excep		
	For the three months ended September 30,		For
	2004	2003	20
Equipment sales	30%	29%	29
Supplies sales	22%	24%	23
Total sales	52%	53%	52
Equipment rentals	33%	34%	34
Support services	15%	13%	14
Total revenue	100%	100%	100
Cost of sales	27%	33%	28
Cost of rentals	9%	11%	10
Selling, service and administrative expenses	56%	48%	54
Operating income	8%	8%	8
Interest expense	1%	3%	1
Income before income taxes	7%	5%	7
Provision for income taxes	3%	2%	3
Net income	4%	3%	4
Cost of sales as a percentage of sales revenue	51.7%	62.1%	55.
Cost of rentals as a percentage of rental revenue	27.7%	33.1%	28.
Effective tax rate	42.4%	42.8%	42.

Three months ended September 30, 2004 and September 30, 2003

Revenue. For the three months ended September 30, 2004, total revenue of $153.1 million decreased 4.1% versus revenue of $159.5 million for the three months ended September 30, 2003 reflecting lower sales to Pitney Bowes of Canada and lower facsimile revenue, partially offset by higher copier/MFP rentals, sales and support services revenue. Excluding the impact of revenue attributable to sales to Pitney Bowes of Canada, which operates under a reseller agreement, total revenue for the third quarter was 0.4% higher versus the prior year.

Equipment and supplies sales revenue of $79.6 million decreased 5.6% for the three months ended September 30, 2004 from $84.3 million for the three months ended September 30, 2003, reflecting lower sales to Pitney Bowes of Canada and lower facsimile sales, partially offset by higher copier/MFP sales. Excluding the impact of sales to Pitney Bowes of Canada, total sales revenue increased 3.1% compared with the prior year. Copier/MFP sales increased 8.3% reflecting growth across all market segments including our geographic expansion of sales as described in Note 10 of our "Notes to Consolidated Financial Statements." Facsimile sales declined 10.4% compared with the prior year primarily due to lower supplies sales from the acceleration in the expected continuing industry-wide reduction in facsimile usage.

Equipment rental revenue of $51.2 million for the three months ended September 30, 2004 declined 5.7% versus equipment rental revenue of $54.2 million for the three months ended September 30, 2003, reflecting acceleration of the continuing expected decline in facsimile revenues, partially offset by an increase in copier/MFP rental revenues resulting from a continuing copier/MFP marketing focus. Rental revenue derived from our copier/MFP product line increased 13.1% primarily reflecting the impact of additional rental placements and a continuing increase in page volumes. The rate of growth in copier/MFP rental revenue is expected to moderate in the fourth quarter as certain copier/MFP rental contracts with the federal government are expiring and are not expected to be renewed. Rental revenue from our facsimile product line declined 22.3% versus the prior year reflecting acceleration of the decline in the rental installed base due in part to rental to sale conversions and lower per unit pricing.

Support services revenue for the three months ended September 30, 2004 of $22.3 million, primarily derived from stand-alone service contracts, increased 6.1% versus support services revenue of $21.0 million for the three months ended September

30, 2003, reflecting higher copier/MFP service revenue in response to copier/MFP equipment sales growth, partially offset by lower facsimile service revenue.

Cost of sales. Cost of sales was $41.1 million for the three months ended September 30, 2004 compared with $52.3 million for the same period in 2003 and cost of sales as a percentage of sales revenue decreased to 51.7% for the three months ended September 30, 2004 from 62.1% for the three months ended September 30, 2003. This decrease was primarily due to lower copier/MFP product cost, lower inventory obsolescence charges and a lower proportion of sales to Pitney Bowes of Canada, which are at substantially lower gross margins than direct sales, partially offset by the continuing shift in product mix toward copier/MFP products, which have a higher cost as a percentage of sales revenue than the facsimile product line.

Cost of rentals. Cost of rentals was $14.2 million for the three months ended September 30, 2004 compared with $18.0 million for the three months ended September 30, 2003 and cost of rentals as a percentage of rental revenue declined 5.4 percentage points to 27.7% for the three months ended September 30, 2004 from 33.1% for the three months ended September 30, 2003. This decline was due to product cost improvements and the impact of our disciplined focus on improving profit margins, partially offset by an increase in the continuing mix of copier/MFP product rentals, which have a higher cost as a percentage of rental revenue than facsimile machines.

Selling, service and administrative expenses. Selling, service and administrative expenses of $85.8 million were 56.0% of total revenue for the three months ended September 30, 2004 compared with $76.0 million, or 47.6% of total revenue for the three months ended September 30, 2003. Selling, service and administrative expenses increased 12.8% versus the prior year primarily resulting from higher compensation costs related to the increase in copier/MFP revenue coupled with increased sales headcount, higher ERP-related administrative costs, increased bad debt expense, higher operating expenses associated with expansion of direct distribution capabilities and the absence of a property damage insurance claim recovery we recorded in the third quarter of 2003 related to the World Trade Center.

Field sales and service operating expenses are included in selling, service and administrative expenses because no meaningful allocation of these expenses to cost of sales, cost of rentals or cost of support services is practicable.

Interest expense. Interest expense decreased to $0.9 million for the three months ended September 30, 2004 from $4.3 million for the three months ended September 30, 2003 primarily resulting from the reclassification of $2.8 million to interest expense from other comprehensive income (loss) related to our interest rate swap agreements in the third quarter of 2003 as well as lower interest rates, partially offset by higher debt levels. The weighted average interest rate for the three months ended September 30, 2004 was 2.8% versus 6.0% for the three months ended September 30, 2003.

Effective tax rate. Our effective tax rate was 42.4% for the three months ended September 30, 2004 compared with 42.8% for the three months ended September 30, 2003 due to a decrease in state and local income taxes.

Nine months ended September 30, 2004 and September 30, 2003

Revenue. For the nine months ended September 30, 2004, total revenue of $462.9 million decreased slightly versus revenue of $466.4 million for the nine months ended September 30, 2003 reflecting lower sales to Pitney Bowes of Canada and lower facsimile revenue, partially offset by higher copier/MFP revenue. Excluding the impact of revenue attributable to sales to Pitney Bowes of Canada, which operates under a reseller agreement, total revenue for the nine months ended September 30, 2004 increased 1.0% versus the same period in the prior year.

Equipment and supplies sales revenue of $237.3 million increased 0.5% for the nine months ended September 30, 2004 from $236.2 million for the nine months ended September 30, 2003, reflecting higher copier/MFP sales, partially offset by lower sales to Pitney Bowes of Canada and lower facsimile sales. Excluding the impact of sales to Pitney Bowes of Canada, total sales revenue increased 4.2% compared with the prior year. Copier/MFP sales increased 11.6% primarily due to growth in the mid market black and white product segments, our geographic expansion of sales as described in Note 10 of our "Notes to Consolidated Financial Statements" and increased copier/MFP supplies sales. Facsimile equipment and supplies sales declined 13.0% compared with the prior year reflecting the expected continuing industry-wide reduction in facsimile usage.

Equipment rental revenue of $159.8 million for the nine months ended September 30, 2004 declined 4.6% versus equipment rental revenue of $167.4 million for the nine months ended September 30, 2003, reflecting the continuing expected decline in facsimile rental revenues, partially offset by an increase in copier/MFP rental revenues resulting from a continuing copier/MFP marketing focus. Rental revenue derived from our copier/MFP product line increased 9.6% primarily reflecting increased unit placements and the impact of an increase in page volumes. Rental revenue from our facsimile product line declined 16.1% versus the prior year reflecting a decline in the installed base and lower pricing.

Support services revenue for the nine months ended September 30, 2004 of $65.8 million, primarily derived from stand-alone service contracts, increased 4.9% versus support services revenue of $62.7 million for the nine months ended September 30, 2003, reflecting higher copier/MFP service revenue resulting primarily from higher page volumes, partially offset by lower facsimile service revenue.

Cost of sales. Cost of sales was $132.5 million for the nine months ended September 30, 2004 compared with $145.7 million for the same period in 2003 and cost of sales as a percentage of sales revenue decreased to 55.8% for the nine months ended September 30, 2004 from 61.7% for the nine months ended September 30, 2003. This decrease was primarily due to lower copier/MFP product cost, lower inventory obsolescence charges and a lower proportion of sales to Pitney Bowes of Canada, which are at substantially lower gross margins than direct sales, partially offset by the continuing shift in product mix toward copier/MFP products, which have a higher cost as a percentage of sales revenue than the facsimile product line.

Cost of rentals. Cost of rentals was $45.3 million for the nine months ended September 30, 2004 compared with $55.8 million for the nine months ended September 30, 2003 and cost of rentals as a percentage of rental revenue declined 5.0 percentage points to 28.3% for the nine months ended September 30, 2004 from 33.3% for the nine months ended September 30, 2003. This decline was due to product cost improvements coupled with the impact of our disciplined focus on improving profit margins, partially offset by an increase in the continuing mix of copier/MFP product rentals which have a higher cost as a percentage of rental revenue than facsimile machines.

Selling, service and administrative expenses. Selling, service and administrative expenses of $250.6 million were 54.1% of total revenue for the nine months ended September 30, 2004 compared with $231.5 million, or 49.6% of total revenue for the nine months ended September 30, 2003. Selling, service and administrative expenses increased 8.2% versus the prior year primarily resulting from higher compensation and benefit expenses relating to higher copier/MFP revenue coupled with increased sales headcount, higher operating expenses associated with direct distribution expansion, higher administrative costs related to the implementation and stabilization of our ERP system and an increase in bad debt expense. This was partially offset by lower costs resulting from the absence of payments to Pitney Bowes for information technology charges, lower service charges from Pitney Bowes under the transition services agreement, lower advertising expenses and the receipt of a business interruption insurance claim related to the World Trade Center.

Field sales and service operating expenses are included in selling, service and administrative expenses because no meaningful allocation of these expenses to cost of sales, cost of rentals or cost of support services is practicable.

Interest expense. Interest expense decreased to $2.7 million for the nine months ended September 30, 2004 from $7.5 million for the nine months ended September 30, 2003 primarily resulting from the reclassification of $2.8 million to interest expense from other comprehensive income (loss) related to our interest rate swap agreements in the third quarter of 2003 as well as lower interest rates, partially offset by higher debt levels. The weighted average interest rate for the nine months ended September 30, 2004 was 2.9% versus 6.5% for the nine months ended September 30, 2003.

Effective tax rate. Our effective tax rate was 42.6% for the nine months ended September 30, 2004 compared with 42.2% for the nine months ended September 30, 2003 primarily due to an increase in state and local income taxes.

Liquidity and Capital Resources

On November 9, 2001, we entered into a Credit Agreement with a group of lenders (the "Credit Agreement") that provided for secured borrowings or the issuance of letters of credit in an aggregate amount not to exceed $225.0 million, comprised of a $125.0 million Revolving Credit Facility (the "Revolving Credit Facility") and a $100.0 million Term Loan (the "Term Loan"). The term of the Revolving Credit Facility is five years and the term of the Term Loan is six years.

We have pledged substantially all of our assets plus 65% of the stock of our direct, wholly-owned subsidiaries as security for our obligations under the Credit Agreement. Available borrowings and letter of credit issuance under the Revolving Credit Facility are determined by a borrowing base consisting of a percentage of our eligible accounts receivable, inventory, rental assets and accrued and advance billings, less outstanding borrowings under the Term Loan.

The Credit Agreement contains financial covenants that require the maintenance of minimum earnings before interest, taxes, depreciation and amortization ("EBITDA") and a maximum leverage ratio (total debt to EBITDA), as well as other covenants, which, among other things, place limits on dividend payments and capital expenditures.

Originally, amounts borrowed under the Revolving Credit Facility bore interest at variable rates based, at our option, on either the LIBOR rate plus a margin of from 2.25% to 3.00%, depending on our leverage ratio, or the Fleet Bank base lending rate plus a margin of from 1.25% to 2.00%, depending on our leverage ratio. Amounts borrowed under the Term Loan bore interest at variable rates based, at our option, on either the LIBOR rate plus a margin of 3.50% or 3.75%, depending on our leverage ratio, or

the Fleet Bank base lending rate plus a margin of 2.50% to 2.75%, depending on our leverage ratio. A commitment fee of from 0.375% to 0.500% on the average daily unused portion of the Revolving Credit Facility was payable quarterly, in arrears, depending on our leverage ratio.

The Credit Agreement required us to manage our interest rate risk with respect to at least 50% of the aggregate principal amount of the Term Loan for a period of at least 36 months. Accordingly, we entered into two interest rate swap agreements in the notional amounts of $50.0 million and $30.0 million to convert the variable interest rate payable on the Term Loan to a fixed interest rate in order to hedge the exposure to variability in expected future cash flows. These interest rate swap agreements had been designated as cash flow hedges. The counterparties to the interest rate swap agreements were major international financial institutions. Under the terms of the swap agreements, we received payments based upon the 90-day LIBOR rate and remitted payments based upon a fixed rate. The fixed interest rates were 4.17% and 4.32% for the $50.0 million and the $30.0 million swap agreements, respectively.

Our initial borrowings of $150.0 million under the Credit Agreement, consisting of $100.0 million under the Term Loan and $50.0 million under the Revolving Credit Facility, were used to repay amounts due to Pitney Bowes and to pay a dividend to Pitney Bowes.

On March 19, 2002, the Credit Agreement was amended to increase the total amount of our stock permitted to be repurchased from $20.0 million to $30.0 million. On July 19, 2002, the Credit Agreement was amended to increase the total amount of our stock permitted to be repurchased from $30.0 million to $58.0 million and to reduce the Term Loan interest rates to LIBOR plus a margin of from 2.75% to 3.75%, depending on our leverage ratio, or to the Fleet Bank base lending rate plus a margin of from 1.75% to 2.75%, depending on our leverage ratio. On March 5, 2003, the Credit Agreement was amended to increase the total amount of stock permitted to be repurchased from $58.0 million to $78.0 million, to reduce the minimum EBITDA covenant to $100.0 million for the remainder of the term of the Credit Agreement and to revise the limitation on capital expenditures. On May 16, 2003, the Credit Agreement was amended (the "Fourth Amendment") to reduce the aggregate amount of the Revolving Credit Facility from $125.0 million to $95.0 million, to delete the requirement that we maintain interest rate protection with respect to at least 50% of the aggregate principal amount of the Term Loan, to reduce and fix the Term Loan interest rate to LIBOR plus a margin of 2.25%, from LIBOR plus a margin of from 2.75% to 3.75%, depending on our leverage ratio, or to the Fleet Bank base lending rate plus a margin of 1.25%, from the Fleet Bank base lending rate plus a margin of from 1.75% to 2.75%, depending on our leverage ratio, to reduce and fix the Revolving Credit Facility interest rate to LIBOR plus a margin of 1.25%, from LIBOR plus a margin of from 2.25% to 3.00%, depending on our leverage ratio, or to the Fleet Bank base lending rate plus a margin of 0.25%, from the Fleet Bank base lending rate plus a margin of from 1.25% to 2.00%, depending on our leverage ratio and to fix our commitment fee at 0.375% on the average daily unused portion of the Revolving Credit Facility from 0.375% to 0.500% on the average daily unused portion of the Revolving Credit Facility, depending on our leverage ratio. On May 7, 2004, the Credit Agreement was amended (the "Fifth Amendment") to increase the amount of our stock permitted to be repurchased from $78.0 million to $108.0 million, to increase the aggregate amount of acquisition consideration payable for acquisitions from $30.0 million to $60.0 million and to remove the requirement for annual borrowing base audits so long as $50.0 million or more of borrowings are available under the Credit Agreement and the fixed charge ratio, as defined in the Fifth Amendment, is 2.0 or higher. Effective June 1, 2004, the Credit Agreement was further amended (the "Sixth Amendment") to reduce and fix the Term Loan interest rate to LIBOR plus a margin of 1.25%, from LIBOR plus a margin of 2.25%, or to the Fleet Bank base lending rate plus a margin of 0.25%, from the Fleet Bank base lending rate plus a margin of 1.25%. At September 30, 2004, we were in compliance with all of the financial covenants.

During the third quarter of 2002, we revised our cash flow estimates and prepaid $8.0 million of the amount outstanding under the Term Loan. This prepayment was covered by a portion of the $30.0 million interest rate swap agreement that had been designated as a cash flow hedge. Since it was no longer probable that the hedged forecasted transactions related to the $8.0 million Term Loan prepayment would occur, we recognized a loss related to that portion of the swap agreement underlying the amount of the prepayment by reclassifying $0.4 million from accumulated other comprehensive income (loss) into interest expense. We also unwound $8.0 million of the $30.0 million interest rate swap agreement.

During the third quarter of 2003, we revised our cash flow estimates and prepaid $20.0 million of the amount outstanding under the Term Loan. In light of this revision, the deletion of the interest rate protection requirement resulting from the Fourth Amendment and our consistent historical positive cash flow and near term estimated operating and capital expenditure requirements, we disposed of our two interest rate swap agreements in the notional amounts of $50.0 million and $22.0 million. Accordingly, we reclassified $2.8 million from accumulated other comprehensive income (loss) into interest expense because it was no longer probable that the hedged forecasted transactions would occur.

At September 30, 2004, $72.0 million of borrowings were outstanding under the Credit Agreement, consisting of $19.0 million of borrowings under the Revolving Credit Facility and $53.0 million of borrowings under the Term Loan, and the borrowing base amounted to approximately $118.9 million. Approximately $75.0 million of the Revolving Credit Facility was available for borrowing at September 30, 2004. The Term Loan is payable in 9 consecutive equal quarterly installments of $0.1

million due December 31, 2004 through December 31, 2006, three consecutive equal quarterly installments of $12.9 million due March 31, 2007 through September 30, 2007 and a final payment of $12.9 million due at maturity.

At September 30, 2004 and December 31, 2003, one irrevocable standby letter of credit in the amount of $0.9 million was outstanding as security for our casualty insurance program.

The ratio of current assets to current liabilities decreased to 2.7 to 1 at September 30, 2004 compared to 2.8 to 1 at December 31, 2003 due to an increase in accounts payable and accrued liabilities, partially offset by increases in accrued billings, inventories, current deferred taxes and accounts receivable. At September 30, 2004, our total debt as a percentage of total capitalization increased to 21.1% from 19.2% at December 31, 2003 due to an increase in our debt and stock repurchases under our stock buy back program.

In October 2003, we implemented Phase II of our ERP system, consisting of order management, order fulfillment, billing, cash collection, service management and sales compensation, which replaced the information technology services provided by Pitney Bowes under the transition services agreement. We believe that we have satisfactorily resolved the issues relating to delays in product shipments and service responsiveness initially experienced in connection with the ERP system implementation. However, as we stabilize the ERP system, we continue to experience certain processing inefficiencies affecting billings, which in turn have negatively impacted accounts receivable levels and the calculation of sales compensation. In addition, delays in the implementation of certain automated tools to assist in collection activities has contributed to the increase in accounts receivable. Our ability to return accounts receivable to historical levels have been impacted by delays in collections resulting from customer inquiries relating to changes to our billing policies and invoice format, an increase in billing adjustment activity, the temporary suspension of account statement and collection notice mailings on delinquent amounts and delays in processing customer invoicing. In August 2004, we resumed mailing account statements and delinquent account notices to customers. We believe that much of the increase in accounts receivable will not be permanent. However, a portion of our increase in accounts receivable results from the standardization of our billing practices and schedules across all product lines and the continuing shift in product mix towards the copier/MFP product line, for which the usage-based billing is more complex. We believe that the portion of the increase in accounts receivable related to changes in billing schedules and product mix represents a permanent structural change. We have provided for collection losses on the increase in accounts receivable at rates higher than our historical experience. However, if collection losses related to accounts receivable are higher than the amounts provided, we would recognize an additional increase in our provision for bad debt.

We remain engaged in a period of stabilization and clean up, as is typical of a large ERP system implementation. During the fourth quarter of 2004 and the first quarter of 2005, we will be implementing Phase III of our ERP system, primarily comprised of certain automated tools to assist in invoice dispute resolution and collection activities. We believe that the implementation of these automated tools will assist in our progress in collecting our accounts receivable beginning in the fourth quarter of 2004. In the month of October, we experienced certain unforeseen system performance issues, which have resulted in delays in invoicing our customers. While we believe that the performance issues are temporary, we expect to experience delays in customer cash receipts negatively impacting accounts receivable during the fourth quarter as a result of the delayed October invoicing. We believe we have identified the causes of these performance issues and that we have implemented appropriate remedies.

Our cash flows from operations, together with borrowings under the Credit

Agreement, are expected to adequately finance our ordinary operating cash requirements and capital expenditures for the foreseeable future. We expect to fund further expansion and long-term growth primarily with cash flows from operations, together with borrowings under the Credit Agreement and possible future sales of additional equity or debt securities.

Net cash provided by operating activities was $57.4 million for the nine months ended September 30, 2004 compared with $84.4 million for the nine months ended September 30, 2003. Net income was $18.3 million and $14.9 million for the nine months ended September 30, 2004 and 2003, respectively. Non-cash charges for depreciation and amortization and provisions for bad debt and inventory obsolescence in the aggregate provided cash of $62.9 million and $67.4 million for the nine months ended September 30, 2004 and 2003, respectively. Changes in the principal components of working capital required $21.0 million and $4.7 million of cash in the nine months ended September 30, 2004 and 2003, respectively. Of the $21.0 million increase in our working capital requirements in the nine months ended September 30, 2004, $12.1 million resulted from an increase in accounts receivable due to delays in collections resulting from customer inquiries related to changes to the Company's billing policies and invoice format, an increase in billing adjustment activity and the temporary suspension of account statement and collection notice mailings on delinquent amounts. In addition, $6.9 million resulted from an increase in accrued billings and $1.5 million resulted from a decrease in advance billings, both related to timing of invoicing to customers. Inventory levels increased $5.6 million resulting from our geographic expansion of sales and service capabilities through our dealer acquisitions (See Note 10 of our "Notes to Consolidated Financial Statements,") and to support new product introductions made in the fourth quarter. This was partially offset by an increase in accounts payable and accrued liabilities of $5.0 million primarily related to the increased inventory purchases. Of the $4.7 million of cash used by working capital changes in the nine months ended September 30, 2003, $14.7 million resulted from a decrease in accounts payable and accrued liabilities primarily related to timing of income tax payments and payments related to 2002 compensation programs. In addition, $1.4 million resulted from an increase in accrued billings and $1.3 million resulted from a decrease in advance billings, both related to timing of invoicing our customers. This was

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partially offset by $7.0 million of net reductions in accounts receivable resulting primarily from collections, $3.7 million resulting from a decrease in inventory levels and $2.0 million resulting from a decrease in other current assets and prepaid expenses.

We used $58.6 million and $45.8 million in investing activities for the nine months ended September 30, 2004 and 2003, respectively. Investment in rental equipment assets totaled $34.8 million and $28.0 million for the nine months ended September 30, 2004 and 2003, respectively. The increased level of rental asset expenditures results primarily from awards of new state rental contracts, partially offset by lower facsimile placements. Capital expenditures for property, plant and equipment were $11.6 million and $13.7 million for the nine months ended September 30, 2004 and 2003, respectively, of which the investment in our ERP system accounted for $8.5 million and $8.3 million, respectively. During the nine months ended September 30, 2004, we acquired three independent dealers to expand our sales and service capabilities as described in Note 10 of our "Notes to Consolidated Financial Statements."

Cash used in financing activities was $9.5 million for the nine months ended September 30, 2004 compared with $44.8 million for the nine months ended September 30, 2003. Net borrowings under the Revolving Credit Facility were $9.0

million for the nine months ended September 30, 2004, while repayments under the Term Loan totaled $20.6 million for the nine months ended September 30, 2003. For the nine months ended September 30, 2004 and 2003 cash was used to repurchase 554,000 shares of our stock at a cost of $20.5 million and 1,205,900 shares at a cost of $26.2 million, respectively.

During the nine month period ended September 30, 2004, we had no material changes in our contractual obligations and commitments. We had no material commitments other than supply agreements with vendors that extend only to equipment supplies and parts ordered under purchase orders; there are no long-term purchase requirements. We will continue to make additional investments in facilities, rental equipment, computer equipment and systems and our distribution network as required to support our operations. We anticipate investments in rental equipment assets for new and replacement programs in amounts consistent with the recent past. We estimate that we will spend approximately $5.0 million over the remainder of 2004 to continue to enhance our information systems infrastructure and implement our ERP system.

Risk Factors that Could Cause Results to Vary

Risk factors relating to our business

The document imaging and management industry is undergoing an evolution in product offerings, moving toward the use of networked, digital and color technology in a multifunctional office environment. Our continued success will depend to a great extent on our ability to respond to this changing environment by developing new options and document imaging solutions for our customers.

The proliferation of e-mail, multifunctional products and other technologies in the workplace has led to a reduction in the use of traditional copiers and facsimile machines. We must be able to continue to obtain products with the appropriate technological advancements in order to remain successful. We cannot anticipate whether other technological advancements will substantially minimize the need for our products in the future.

Because the document imaging solutions industry is very competitive, we may be unable to compete favorably, causing us to lose sales to our competitors, many of whom are substantially larger and possess greater financial resources. Our future success depends, in part, on our ability to deliver enhanced products, service packages and business processes such as e-commerce capabilities, while also offering competitive price levels.

We rely on outside suppliers to manufacture the products that we distribute, many of whom are located in Asia. In addition, our primary suppliers sell products in competition with us, either directly or through dealer channels. Four manufacturers supply a significant portion of our new copier and multifunctional equipment. If these manufacturers discontinue their products or are unable to deliver us products in the future or if political changes, economic disruptions or natural disasters occur where their production facilities are located, we will be forced to identify an alternative supplier or suppliers for the affected product. In addition, although we have worked with our suppliers and freight forwarders to mitigate the potential impacts of an outbreak of infectious disease affecting our supply chain, should our manufacturers become affected by epidemics of infectious diseases, including outbreaks such as severe acute respiratory syndrome, we could be forced to identify an alternative supplier or suppliers for the affected product. Although we are confident that we can identify alternate sources of supply, we may not be successful in doing so. Even if we are successful, the replacement product may be more expensive or may lack certain features of the discontinued product and we may experience some delay in obtaining the product. Other events that disrupt the shipment to or receipt of ocean freight at U.S. ports, such as labor unrest, war or terrorist activity could delay, prevent or add substantial cost to our receipt of such products. Any of these events would cause disruption to our customers and could have an adverse effect on our business.

We have a geographic dispersion of business and assets located across North America comprised of our sales, service and distribution facilities. Changes in international, national or political conditions, including terrorist attacks could impact the sales, service and distribution of our products to our customers and could have an adverse effect on our business.

A portion of our international business is transacted in local currency. Currently, approximately 14% of our total product purchases, based on costs, are denominated in yen. The majority of our remaining product purchases are denominated in U.S. dollars and are produced by Japanese suppliers in manufacturing facilities located in China. Currently, the exchange rate of the Chinese renminbi and the U.S. dollar is fixed. If the Chinese government was to revalue the Chinese renminbi and the nominal value of the renminbi rises, the resultant impact on the exchange rate of the Chinese renminbi and the U.S. dollar could have a negative impact on our product cost. We do not currently utilize any form of derivative financial instruments to manage our exchange rate risk. We manage our foreign exchange risk by attempting to pass through to our customers any cost increases related to foreign currency exchange. However, no assurance can be given that we will be successful in passing cost increases through to our customers in the future.

We are in the process of evaluating and documenting our internal control systems and performing the testing required to comply with Section 404 of the Sarbanes-Oxley Act of 2002. Section 404 requires management to document, test and report on our internal controls over financial reporting in our Annual Report on Form 10-K for the year ending December 31, 2004 and for our Independent Auditors to attest to management's assertions. Over the past twelve months, we have implemented a new ERP system, which has significantly impacted customer billings, accounts receivable and sales compensation. We are in a period of stabilization and clean up and additional system implementations are being undertaken in the fourth quarter of 2004 to address issues encountered to date. Management intends to complete our assessment of internal controls over financial reporting in order to comply with the Section 404 requirements. However, during the course of our testing we may identify deficiencies or weaknesses and we can provide no assurance that any remediation required will be successful or completed in the time required.

Risk factors relating to separating our company from Pitney Bowes

In October 2003, we implemented Phase II of our ERP system, consisting of order management, order fulfillment, billing, cash collection, service management and sales compensation, which replaced the information technology services provided by Pitney Bowes under the transition services agreement. We believe that we have satisfactorily resolved the issues relating to delays in product shipments and service responsiveness initially experienced in connection with the ERP system implementation. However, as we stabilize the ERP system, we continue to experience certain processing inefficiencies affecting billings, which in turn have negatively impacted accounts receivable levels and the calculation of sales compensation. In addition, delays in the implementation of certain automated tools to assist in collection activities have contributed to the increase in accountalign="right" valign="bottom">
1,143,616

Net realized gain on investments and foreign currency related transactions

5,660,250

22,569,104

Net change in unrealized appreciation/(depreciation) in value of investments and translation of other assets and liabilities denominated in foreign currencies

(76,820,491

)

16,506,874

Net increase/(decrease) in net assets resulting from operations

(69,175,434

)

40,219,594

Dividends and distributions to shareholders:

Net investment income

(1,626,475

)

(1,245,943

)

Net realized gain on investments

(7,725,756

)

(24,205,272

)

Total dividends and distributions to shareholders

(9,352,231

)

(25,451,215

)

Capital share transactions:

Issuance of 24,625 and 0 shares respectively from reinvestments of dividends and distributions

406,067

Issuance of 2,509 and 0 shares through the directors compensation plan (Note C)

35,335

Total capital share transactions

441,402

Total increase/(decrease) in net assets

(78,086,263

)

14,768,379

NET ASSETS

Beginning of year

190,448,236

175,679,857

End of year*

$

112,361,973

$

190,448,236

* Includes undistributed net investment income of $421,559 and $0, respectively.

See accompanying notes to financial statements.

THE CHILE FUND, INC.

Financial Highlights

Contained below is per share operating performance data for a share of common stock outstanding, total investment return, ratios to average net assets and other supplemental data for each year indicated. This information has been derived from information provided in the financial statements and market price data for the Fund's shares.

	For the Years Ended December 31,							
	2008	2007	2006	2005	2004	2003	2002	2001
PER SHARE OPERATING PERFORMANCE								
Net asset value, beginning of year	$ 18.78	$ 17.33	$ 14.16	$ 15.68	$ 14.48	$ 8.39	$ 9.93	$ 11.43
Net investment income/(loss)	0.20	0.11	0.01	0.11	0.16	0.07	0.09*	0.21
Net realized and unrealized gain/(loss) on investments and foreign currency related transactions	(7.01)	3.85	4.28	2.71	3.27	6.47	(1.70)	(0.70)
Net increase/(decrease) in net assets resulting from operations	(6.81)	3.96	4.29	2.82	3.43	6.54	(1.61)	(0.49)
Dividends and distributions to shareholders:								
Net investment income	(0.16)	(0.12)	(0.03)	(0.07)	(0.47)	(0.08)	(0.09)	(0.15)
Net realized gain on investments and foreign currency related transactions	(0.76)	(2.39)	(1.09)	(4.27)	(1.76)	(0.37)		(0.86)
Total dividends and distributions to shareholders	(0.92)	(2.51)	(1.12)	(4.34)	(2.23)	(0.45)	(0.09)	(1.01)
Anti-dilutive impact due to capital shares tendered							0.16	

or repurchased								
Net asset value, end of year	$ 11.05	$ 18.78	$ 17.33	$ 14.16	$ 15.68	$ 14.48	$ 8.39	$ 9.93
Market value, end of year	$ 9.82	$ 22.00	$ 16.92	$ 17.65	$ 13.99	$ 14.10	$ 7.25	$ 8.43
Total investment return (a)	(51.78)%	49.56%	2.35%	57.74%	14.93%	100.72%	(12.93)%	13.18%
RATIOS/SUPPLEMENTAL DATA								
Net assets, end of year (000 omitted)	$ 112,362	$ 190,448	$ 175,680	$ 143,603	$ 158,983	$ 146,839	$ 85,082	$ 134,289
Ratio of expenses to average net assets (b)	1.89%	1.79%	2.14%	1.82%	1.85%	1.74%	1.11%	2.71%
Ratio of expenses to average net assets, excluding taxes	1.50%	1.56%	1.91%	1.57%	1.62%	1.74%	2.01%	1.54%
Ratio of net investment income/(loss) to average net assets	1.13%	0.55%	0.05%	0.69%	1.12%	0.65%	1.28%(c)	1.91%
Portfolio turnover rate	27.33%	23.29%	19.95%	37.48%	35.54%	31.94%	31.94%	29.81%

* Based on actual shares outstanding on February 4, 2002 (prior to the tender offer) and December 31, 2002.

Based on average shares outstanding.

(a) Total investment return at market value is based on the changes in market price of a share during the year and assumes reinvestment of dividends and distributions, if any, at actual prices pursuant to the Fund's dividend reinvestment program.

(b) Ratios include the effect of Chilean taxes.

(c) Ratio includes the effect of a reversal of Chilean tax accrual; excluding the reversal, the ratio would have been 0.18%.

See accompanying notes to financial statements.

	2000	1999
PER SHARE OPERATING PERFORMANCE		
Net asset value, beginning of year	$ 15.22	$ 12.59
Net investment income/(loss)	(0.06)	0.09
Net realized and unrealized gain/(loss) on investments and foreign currency related transactions	(3.36)	3.19
Net increase/(decrease) in net assets resulting from operations	(3.42)	3.28
Dividends and distributions to shareholders:		
Net investment income	(0.01)	(0.07)
Net realized gain on investments and foreign currency related transactions	(0.58)	(0.58)
Total dividends and distributions to shareholders	(0.59)	(0.65)
Anti-dilutive impact due to capital shares tendered or repurchased	0.22	
Net asset value, end of year	$ 11.43	$ 15.22
Market value, end of year	$ 8.438	$ 11.250
Total investment return (a)	(20.04)%	31.45%
RATIOS/SUPPLEMENTAL DATA		
Net assets, end of year (000 omitted)	$ 154,473	$ 218,027
Ratio of expenses to average net assets (b)	2.98%	2.16%
Ratio of expenses to average net assets, excluding taxes	1.73%	1.64%
Ratio of net investment income/(loss) to average net assets	(0.45)%	0.61%
Portfolio turnover rate	24.25%	12.01%

THE CHILE FUND, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE A. ORGANIZATION

The Chile Fund, Inc. (the "Fund") was incorporated in Maryland on January 30, 1989 and commenced investment operations on September 27, 1989. The Fund is registered under the Investment Company Act of 1940, as amended, as a closed-end, non-diversified management investment company.

NOTE B. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Security Valuation: The net asset value of the Fund is determined daily as of the close of regular trading on the New York Stock Exchange, Inc. (the "Exchange") on each day the Exchange is open for business. Equity investments are valued at market value, which is generally determined using the closing price on the exchange or market on which the security is primarily traded at the time of valuation (the "Valuation Time").If no sales are reported, equity investments are generally valued at the most recent bid quotation as of the Valuation Time or at the lowest ask quotation in the case of a short sale of securities. Debt securities with a remaining maturity greater than 60 days are valued in accordance with the price supplied by a pricing service, which may use a matrix, formula or other objective method that takes into consideration market indices, yield curves and other specific adjustments. Debt obligations that will mature in 60 days or less are valued on the basis of amortized cost, which approximates market value, unless it is determined that using this method would not represent fair value. Investments in mutual funds are valued at the mutual fund's closing net asset value per share on the day of valuation.

Securities and other assets for which market quotations are not readily available, or whose values have been materially affected by events occurring before the Fund's Valuation Time, but after the close of the securities' primary market, are valued at fair value as determined in good faith by, or under the direction of, the Board of Directors under procedures established by the Board of Directors. The Fund may utilize a service provided by an independent third party which has been approved by the Board of Directors to fair value certain securities. When fair-value pricing is employed, the prices of securities used by a fund to calculate its net asset value may differ from quoted or published prices for the same securities. The Fund's estimate of fair value assumes a willing buyer and a willing seller neither acting under the compulsion to buy or sell.

The Fund adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("FAS 157"), effective January 1, 2008. In accordance with FAS 157, fair value is defined as the price that the Fund would receive upon selling an investment in a timely transaction to an independent buyer in the principal or most advantageous market of the investment. FAS 157 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value including such a pricing model and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the

THE CHILE FUND, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008

assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The three-tier hierarchy of inputs is summarized in the three broad Levels listed below.

Level 1 quoted prices in active markets for identical investments

Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of December 31, 2008 in valuing the Fund's investments carried at value:

Valuation Inputs	**Investments in Securities**	**Other Financial Instruments***
Level 1 Quoted Prices	$ 115,132,004	$
Level 2 Other Significant Observable Inputs	3,328,000	
Level 3 Significant Unobservable Inputs		
Total	$ 118,460,004	$

* Other financial instruments include futures, forwards and swap contracts.

Short-Term Investment: The Fund sweeps available cash into a short-term time deposit available through Brown Brothers Harriman & Co., the Fund's custodian. The short-term time deposit is a variable rate account classified as a short-term investment.

Investment Transactions and Investment Income: Investment transactions are accounted for on a trade date basis. The cost of investments sold is determined by use of the specific identification method for both financial reporting and U.S. income tax purposes. Interest income is accrued as earned; dividend income is recorded on the ex-dividend date.

Taxes: No provision is made for federal taxes as it is the Fund's intention to continue to qualify for and elect the tax treatment applicable to regulated investment companies under the Internal Revenue Code of 1986, as amended, and to make the requisite distributions to its shareholders, which will be sufficient to relieve it from federal income and excise taxes.

The Fund accrues foreign taxes on realized gains and repatriation taxes in an amount equal to what the Fund would owe if the securities were sold and the proceeds repatriated on the valuation date as a liability and reduction of realized/unrealized gains. Taxes on foreign income are recorded when the related income is recorded. For the year ended December 31, 2008, the Fund incurred $670,654 of such expense.

During June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation 48 ("FIN 48 or the "Interpretation"), *Accounting for Uncertainty in Income Taxes an interpretation of FASB statement 109*. The Fund has reviewed its current tax positions and has determined that no provision for income tax is required in the Fund's financial statements. The Fund's federal tax returns for the prior three fiscal years remain subject to examination by the Internal Revenue Service.

THE CHILE FUND, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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Foreign Currency Translations: The books and records of the Fund are maintained in U.S. dollars. Foreign currency amounts are translated into U.S. dollars on the following basis:

(I) market value of investment securities, assets and liabilities at the valuation date rate of exchange; and

(II) purchases and sales of investment securities, income and expenses at the relevant rates of exchange prevailing on the respective dates of such transactions.

The Fund does not isolate that portion of gains and losses on investments in equity securities which is due to changes in the foreign exchange rates from that which is due to changes in market prices of equity securities. Accordingly, realized and unrealized foreign currency gains and losses with respect to such securities are included in the reported net realized and unrealized gains and losses on investment transactions balances.

The Fund reports certain foreign currency related transactions and foreign taxes withheld on security transactions as components of realized gains for financial reporting purposes, whereas such foreign currency related transactions are treated as ordinary income for U.S. federal income tax purposes.

Net unrealized currency gains or losses from valuing foreign currency denominated assets and liabilities at period end exchange rates are reflected as a component of net unrealized appreciation/depreciation in value of investments, and translation of other assets and liabilities denominated in foreign currencies.

Net realized foreign exchange gains or losses represent foreign exchange gains and losses from transactions in foreign currencies and forward foreign currency contracts, exchange gains or losses realized between the trade date and settlement date on security transactions, and the difference between the amounts of interest and dividends recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received.

Securities Lending: In connection with its security lending activities, the Fund received cash as collateral for any securities out on loan to brokers. Such cash collateral was reinvested into either an overnight repurchase agreement or a securities lending fund available through Brown Brothers Harriman & Co. Security loans are required at all times to have collateral at least equal to 100% of the market value of the securities on loan; however, in the event of default or bankruptcy by the other party to the agreement, realization and/or retention of the collateral may be subject to legal proceedings. During the year ended December 31, 2008, total earnings from the investment of cash collateral received by the Fund in a securities lending arrangement was $333.

Distributions of Income and Gains: The Fund distributes at least annually to shareholders substantially all of its net investment income and net realized short-term capital gains, if any. The Fund determines annually whether to distribute any net realized long-term capital gains in excess of net realized short-term capital losses, including capital loss carryovers, if any. An additional distribution may be made to the extent necessary to avoid the payment of a 4% U.S. federal excise tax. Dividends and distributions to shareholders are recorded by the Fund on the ex-dividend date.

The character of distributions made during the year from net investment income or net realized gains may differ from their ultimate characterization for U.S. income tax purposes due to U.S. generally accepted accounting principles/tax differences in the character of income and expense recognition.

THE CHILE FUND, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008

Other: The Fund may invest in securities of foreign countries and governments which involve certain risks in addition to those inherent in domestic investments. Such risks generally include, among others, currency risks (fluctuations in currency exchange rates), information risk (key information may be inaccurate or unavailable) and political risk (expropriation, nationalization or the imposition of capital or currency controls or punitive taxes). Other risks of investing in foreign securities include liquidity and valuation risks.

Securities denominated in currencies other than U.S. dollars are subject to changes in value due to fluctuations in exchange rates.

The Chilean securities markets are substantially smaller, less liquid and more volatile than the major securities markets in the United States. Consequently, acquisition and disposition of securities by the Fund may be inhibited. A significant proportion of the aggregate market value of equity securities listed on the Santiago Exchange are held by a small number of investors and are not publicly traded. This may limit the number of shares available for acquisition or disposition by the Fund.

Investments in Chile may involve certain considerations and risks not typically associated with investments in the United States, including the possibility of future political and economic developments and the level of Chilean governmental supervision and regulation of its securities markets.

The Fund, subject to local investment limitations, may invest up to 20% of its assets (at the time of commitment) in illiquid equity securities, including securities of private equity funds (whether in corporate or partnership form) that invest primarily in the emerging markets. When investing through another investment fund, the Fund will bear its proportionate share of the expenses incurred by that fund, including management fees. Such securities are expected to be illiquid which may involve a high degree of business and financial risk and may result in substantial losses. Because of the current absence of any liquid trading market for these investments, the Fund may take longer to liquidate these positions than would be the case for publicly traded securities. Although these securities may be resold in privately negotiated transactions, the prices realized on such sales could be substantially less than those originally paid by the Fund or the current carrying values and these differences could be material. Further, companies whose securities are no publicly traded may not be subject to the disclosures and other investor protection requirements applicable to companies whose securities are publicly traded.

NOTE C. AGREEMENTS

Credit Suisse Asset Management, LLC ("Credit Suisse"), serves as the Fund's investment adviser with respect to all investments. Credit Suisse receives as compensation for its advisory services from the Fund, an annual fee, calculated weekly and paid quarterly, equal to 1.20% of the first $50 million of the Fund's average weekly market value or net assets (whichever is lower), 1.15% of the next $50 million and 1.10% of amounts in excess of $100 million. For the year ended December 31, 2008, Credit Suisse earned $1,748,532 for advisory services. Credit Suisse also provides certain administrative services to the Fund and is reimbursed by the Fund for costs incurred on behalf of the Fund (up to $20,000 per annum). For the year ended December 31, 2008, Credit Suisse was reimbursed $12,582 for administrative services rendered to the Fund.

CELFIN CAPITAL Servicios Financieros S.A. ("Celfin") serves as the Fund's Chilean sub-adviser. Celfin receives as compensation for its sub-advisory services, an annual fee, out of the advisory fee payable to Credit Suisse, calculated weekly and paid quarterly, equal to 0.20% of the Fund's average weekly market value or

THE CHILE FUND, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008

net assets (whichever is lower). For the year ended December 31, 2008, these sub-advisory fees amounted to $318,879.

For the year ended December 31, 2008, Celfin earned approximately $95,829 in brokerage commissions from portfolio transactions executed on behalf of the Fund.

Bear Stearns Funds Management Inc. ("BSFM") served as the Fund's administrator until July 31, 2008. The Fund paid BSFM a monthly fee that was calculated weekly based on the Fund's average weekly net assets. For the period ended July 31, 2008, BSFM earned $69,024 for administrative services.

Brown Brothers Harriman & Co. ("BBH & Co.") serves as the Fund's administrator. For the period August 1, 2008 to December 31, 2008, BBH & Co. earned $34,049 for administrative and accounting services.

Celfin Capital S.A. Administradora de Fondos de Capital Extranjero ("AFCE") serves as the Fund's Chilean administrator. For its services, AFCE is paid a fee, out of the advisory fee payable to Credit Suisse, that is calculated weekly and paid quarterly at an annual rate of 0.05% of the Fund's average weekly market value or net assets (whichever is lower). In addition, AFCE receives a supplemental administration fee, an annual reimbursement of out-of-pocket expenses and an accounting fee. For the year ended December 31, 2008, the administration fees, supplemental administration fees and accounting fees amounted to $89,603, $79,720 and $9,808, respectively.

Merrill Corporation ("Merrill"), an affiliate of Credit Suisse, has been engaged by the Fund to provide certain financial printing services. For the year ended December 31, 2008, Merrill was paid $25,802 for its services to the Fund.

The Independent Directors receive fifty percent (50%) of their annual retainer in the form of shares. Beginning in 2008, the Independent Directors can elect to receive up to 100% of their annual retainer in shares of the Fund. During the year end December 31, 2008, 2,509 shares were issued through the directors compensation plan. Directors as a group own less than 1% of the Fund's outstanding shares.

NOTE D. CAPITAL STOCK

The authorized capital stock of the Fund is 100,000,000 shares of common stock, $0.001 par value. Of the 10,167,060 shares outstanding at December 31, 2008, Credit Suisse owned 14,615 shares.

NOTE E. INVESTMENT IN SECURITIES

For the year ended December 31, 2008, purchases and sales of securities, other than short-term investments, were $48,408,555 and $69,144,033, respectively.

NOTE F. CREDIT FACILITY

The Fund, together with other funds/portfolios advised by Credit Suisse (collectively, the "Participating Funds"), participates in a $50 million committed, unsecured, line of credit facility ("Credit Facility") with State Street Bank and Trust Company for temporary or emergency purposes. Under the terms of the Credit Facility, the Participating Funds pay an aggregate commitment fee at a rate of 0.10% per annum on the average unused amount of the Credit Facility, which is allocated among the Participating Funds in such manner as is determined by the governing Boards of the Participating Funds. In addition, the Participating Funds pay interest on borrowings at the Federal Funds rate plus 0.50%. At December 31, 2008, and during the year ended December 31, 2008, the Fund had no borrowings under the Credit Facility.

THE CHILE FUND, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008

NOTE G. FEDERAL INCOME TAXES

Income and capital gain distributions are determined in accordance with federal income tax regulations, which may differ from GAAP.

The tax characteristics of dividends and distributions paid during the year ended December 31, 2008 and 2007, respectively, by the Fund were as follows:

Ordinary Income		Long-Term Capital Gains	
2008	**2007**	**2008**	**2007**
$ 2,247,463	$ 5,071,001	$ 7,104,768	$ 20,380,214

The tax basis of components of distributable earnings differ from the amounts reflected in the Statement of Assets and Liabilities by temporary book/tax differences. These differences are primarily due to losses deferred on wash sales. At December 31, 2008, the components of distributable earnings on a tax basis, for the Fund were as follows:

Undistributed ordinary income	$ 484,263
Unrealized appreciation	30,388,276
Total distributable earnings	$ 30,872,539

At December 31, 2008, the identified cost for federal income tax purposes, as well as the gross unrealized appreciation from investments for those securities having an excess of value over cost, gross unrealized depreciation from investments for those securities having an excess of cost over value and the net unrealized appreciation from investments were $88,051,531, $47,472,789, $(17,064,316) and $30,408,473, respectively.

At December 31, 2008, the Fund reclassified $63,227 from accumulated net realized loss on investments and foreign currency related transactions to undistributed net investment income. These permanent differences are due to differing book/tax treatments of foreign currency transactions. Net assets were not affected by this reclassification.

NOTE H. CONTINGENCIES

In the normal course of business, the Fund may provide general indemnifications pursuant to certain contracts and organizational documents. The Fund's maximum exposure under these arrangements is dependent on future claims that may be made against the Fund and, therefore, cannot be estimated; however, based on experience, the risk of loss from such claims is considered remote.

NOTE I. RECENT ACCOUNTING PRONOUNCEMENTS

In March 2008, FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("FAS 161"), an amendment of FASB Statement No. 133. FAS 161 requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and hedging activities are accounted for, and (c) how derivative instruments and related hedging activities affect a fund's financial position, financial performance, and cash flows. Management of the Funds does not believe the adoption of FAS 161 will materially impact the financial statement amounts, but will require additional disclosures. This will include qualitative and quantitative disclosures on derivative positions existing at period end and the effect of using derivatives during the reporting period. FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008.

NOTE J. OTHER MATTERS

On December 31, 2008, Credit Suisse, the corporate parent of the Funds' investment adviser, announced it had signed an agreement to sell part of its Global Investors traditional asset management business to Aberdeen Asset Management ("Aberdeen"), an

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THE CHILE FUND, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008

international investment management group, managing assets for both institutions and private individuals from offices around the world. Credit Suisse has stated that the transaction is subject to customary closing conditions, including regulatory approvals in various jurisdictions and approval by Aberdeen shareholders, and is expected to close in the second quarter of 2009.

Pending the closing of the transaction, Credit Suisse Asset Management, LLC ("CSAM"), Credit Suisse Asset Management Limited (U.K.) ("CSAM UK") and Credit Suisse Asset Management Limited (Australia) ("CSAM Australia") are expected to continue to operate in the ordinary course of business as the investment adviser or sub-adviser of the Funds.

If completed, acquisition of the Credit Suisse business by Aberdeen would constitute an "assignment" of the Funds' Advisory and Sub-Advisory Agreements with CSAM, CSAM UK and CSAM Australia and, by law, would automatically terminate those agreements. Accordingly, each Fund's Board of Directors is considering various options in connection with the transaction, including possibly entering into new investment advisory and sub-advisory agreements with Aberdeen. If approved by a Fund's Board of Directors, including the Directors who are not "interested persons" of the investment manager and its affiliates or the Fund, any new investment advisory and sub-advisory agreements will require the approval of the Fund's shareholders.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
of The Chile Fund, Inc.:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations, of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of The Chile Fund, Inc. (the "Fund") at December 31, 2008, the results of its operations for the year then ended and the changes in its net assets and financial highlights for the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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, which included confirmation of securities at December 31, 2008 by correspondence with the custodian and brokers, provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Baltimore, Maryland
February 26, 2009

RESULTS OF ANNUAL MEETING OF SHAREHOLDERS (UNAUDITED)

On April 10, 2008, the Annual Meeting of Shareholders of the Fund (the "Meeting") was held and the following matter was voted upon:

(1) To re-elect two directors to the Board of Directors of the Fund:

Name of Director	For	Withheld
James C. Cattano (Class III)	6,663,155	34,320
Steven N. Rappaport (Class III)	6,623,860	73,615

In addition to the directors elected at the Meeting, Enrique R. Arzac, Lawrence J. Fox and Martin M. Torino continued as directors of the Fund. Subsequent to the Meeting, Lawrence D. Haber resigned as a director of the Fund.

TAX INFORMATION (UNAUDITED)

For the fiscal year ended December 31, 2008, the Fund designates approximately $179,252, or up to the maximum amount of such dividends allowable pursuant to the Internal Revenue Code, as qualified dividend income eligible for reduced tax rates. These lower rates range from 5% to 15% depending on an individual's tax bracket. If the Fund pays a distribution during calendar year 2008, complete information will be reported in conjunction with Form 1099-DIV.

During the year ended December 31, 2008, the Fund declared $7,104,768 in dividends that were designated as long-term capital gains dividends.

Shareholders are advised to consult their own tax advisers with respect to the tax consequences of their investment in the Fund.

INFORMATION CONCERNING DIRECTORS AND OFFICERS (UNAUDITED)

Name, Address (Year of Birth)	Position(s) Held with Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Portfolios in Fund Complex Overseen by Director	Other Directorships Held by Director
Independent Directors					
Enrique R. Arzac c/o Credit Suisse Asset Management, LLC Attn: General Counsel Eleven Madison Avenue New York, New York 10010 (1941)	Chairman of the Board of Directors; Nominating Committee Chairman and Audit Committee Member	Director since 1996; Chairman since 2005; current term ends at the 2009 annual meeting	Professor of Finance and Economics, Graduate School of Business, Columbia University since 1971	33	Director of Epoch Holding Corporation (an Investment management and investment advisory services company); Director of The Adams Express Company (a closed-end investment company); Director of Petroleum and Resources Corporation (a closed-end investment company)
James J. Cattano c/o Primary Resources, Inc. 5100 Tamiami Trail N. Naples, FL 34103 (1943)	Director; Nominating Committee Member and Audit Committee Chairman	Since 1989; current term ends at the 2011 annual meeting	President, Primary Resources Inc. (an international trading and manufacturing company specializing in the sale of agricultural commodities throughout Latin American markets) since October 1996	7	None
Lawrence J. Fox One Logan Square 18th & Cherry Streets Philadelphia,	Director; Nominating and Audit Committee Member	Since 2006; Current term ends at the 2010 annual meeting	Partner, Drinker Biddle & Reath (law firm) since 1972	6	None

Pennsylvania 19103 (1943)					
Steven N. Rappaport Lehigh Court, LLC 555 Madison Ave., 29th Floor New York, New York 10022 (1948)	Director; Nominating and Audit Committee Member	Since 2003; Current term ends at the 2011 annual meeting	Partner of Lehigh Court, LLC and RZ Capital (private investment firms) since July 2002	33	Director of iCAD, Inc. (Surgical & Medical Instruments & Apparatus); Director of Presstek, Inc. (digital imaging technologies company); Director of Wood Resources, LLC (a plywood manufacturing company)

INFORMATION CONCERNING DIRECTORS AND OFFICERS (UNAUDITED) (CONTINUED)

Name, Address (Year of Birth)	Position(s) Held with Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Portfolios in Fund Complex Overseen by Director	Other Directorships Held by Director
Independent Directors (continued)					
Martin M. Torino c/o Credit Suisse Asset Management, LLC Attn: General Counsel Eleven Madison Avenue New York, New York 10010 (1949)	Director; Nominating and Audit Committee Member	Since 2005; current term ends at the 2010 annual meeting	Chief Executive Officer and Director of Celsur Logistica S.A. (Logistics) since 2002	3	None

Name, Address (Year of Birth)	Position(s) Held with Fund	Length of Time Served	Principal Occupation(s) During Past Five Years
Officers			
George R. Hornig Credit Suisse Asset Management, LLC Eleven Madison Avenue New York , New York 10010 (1954)	Chief Executive Officer and President	Since 2008	Managing Director of Credit Suisse; Co-Chief Operating Officer of Asset Management and Head of Asset Management Americas; Associated with Credit Suisse since 1999; Officer of other Credit Suisse Funds.
Matthew J.K. Hickman	Chief Investment Officer	Since 2004	Director of Credit Suisse; Financial Advisor with Global Advisors from July 2003 to November 2003; General Manager of Compass Group Investment

Credit Suisse Asset Management, LLC Eleven Madison Avenue New York, New York 10010 (1964)			Advisors S.A. from February 2002 to July 2003; Officer of other Credit Suisse Funds.
Michael A. Pignataro Credit Suisse Asset Management, LLC Eleven Madison Avenue New York, New York 10010 (1959)	Chief Financial Officer	Since 1993	Director and Director of Fund Administration of Credit Suisse; Associated with Credit Suisse or its predecessor since 1984; Officer of other Credit Suisse Funds.

INFORMATION CONCERNING DIRECTORS AND OFFICERS (UNAUDITED) (CONTINUED)

Name, Address (Year of Birth)	Position(s) Held with Fund	Length of Time Served	Principal Occupation(s) During Past Five Years
Officers (continued)			
Emidio Morizio Credit Suisse Asset Management, LLC Eleven Madison Avenue New York, New York 10010 (1966)	Chief Compliance Officer	Since 2004	Director and Global Head of Compliance of Credit Suisse; Associated with Credit Suisse since July 2000; Officer of other Credit Suisse Funds.
J.Kevin Gao Credit Suisse Asset Management, LLC Eleven Madison Avenue New York, New York 10010 (1967)	Chief Legal Officer since 2006; Senior Vice President And Secretary since 2004	Since 2004	Director and Legal Counsel of Credit Suisse; Associated with Credit Suisse since July 2003; Associated with the law firm of Willkie Farr & Gallagher LLP from 1998 to 2003; Officer of other Credit Suisse Funds.
Cecilia Chau Credit Suisse Asset Management, LLC Eleven Madison Avenue New York, New York 10010 (1973)	Treasurer	Since 2008	Assistant Vice President of Credit Suisse since June 2007; Associated with Alliance Bernstein LP. From January 2007 to May 2007; Associated with Credit Suisse from August 2000 to December 2006; Officer of other Credit Suisse Funds.

ADVISORY AGREEMENT APPROVAL DISCLOSURE (UNAUDITED)

Board Consideration and Re-Approval of Investment Advisory and Sub-Advisory Agreements

The Board of Directors (the "Board") of The Chile Fund, Inc. (the "Fund"), including a majority of the Directors who have no direct or indirect interest in the investment advisory and sub-advisory agreements and are not "interested persons" of the Fund, as defined in the Investment Company Act of 1940 (the "Independent Directors"), is required annually to review and re-approve the terms of the Fund's investment advisory and sub-advisory agreements. During the most recent six months covered by this report, the Board reviewed and re-approved: (i) an investment advisory agreement with Credit Suisse Asset Management, LLC ("Credit Suisse") and (ii) a sub-advisory agreement with CELFIN CAPITAL Servicios Financieros S.A. ("CELFIN" or the "Sub-Adviser"). These agreements are collectively referred to as the "Advisory Agreements."

More specifically, at a meeting held on November 19-20, 2008, the Board, including the Independent Directors advised by their independent legal counsel, considered the factors and reached the conclusions described below relating to the selection of Credit Suisse and CELFIN and the re-approval of the Advisory Agreements.

Nature, Extent and Quality of Services

The Board received and considered various data and information regarding the nature, extent and quality of services provided to the Fund by Credit Suisse and CELFIN under the Advisory Agreements. The most recent investment adviser registration forms for Credit Suisse and CELFIN were provided to the Board, as were responses of Credit Suisse and CELFIN to a detailed series of requests submitted by the Independent Directors' independent legal counsel on their behalf. The Board reviewed and analyzed these materials, which included, among other things, information about the background and experience of senior management and investment personnel of Credit Suisse and CELFIN. In this regard, the Board specifically reviewed the qualifications, backgrounds and responsibilities of the individual primarily responsible for day-to-day portfolio management services for the Fund.

In addition, the Board considered the investment and legal compliance programs of Credit Suisse and CELFIN, including their compliance policies and procedures and reports of the Fund's Chief Compliance Officer.

The Board also evaluated the ability of Credit Suisse and CELFIN, including their respective resources, reputations and other attributes, to attract and retain qualified investment professionals, including research, advisory, and supervisory personnel.

Finally, the Board considered preliminary information from Credit Suisse's corporate parent about its search for a strategic partner for part of its asset management business. In reaching its determination to continue the agreements and arrangements, the Board relied upon Credit Suisse's undertaking and assurances to continue providing quality management, personnel and other resources necessary to continue providing advisory services of a nature, extent and quality at least comparable to those currently provided to the Funds.

Based on the above factors, together with those referenced below, the Board concluded that it was satisfied with the nature, extent and quality of the investment advisory services provided to the Fund by Credit Suisse and CELFIN.

ADVISORY AGREEMENT APPROVAL DISCLOSURE (UNAUDITED) (CONTINUED)

Fund Performance and Expenses

The Board considered the performance results of the Fund in comparison to the Fund's benchmark index, the MSCI Chile Index. The Board noted that while the Fund's market price return had significantly underperformed its benchmark in recent periods, the Fund's NAV had outperformed its benchmark in 2007 and year-to-date for the period ended September 30, 2008.

The Board also considered information regarding the Fund's total expense ratio and its various components in comparison to expense information for a group of funds that was determined to be the most similar to the Fund (the "Peer Group") and of a broader universe of relevant funds (the "Expense Universe"). Lipper Inc. ("Lipper"), an independent provider of investment company data, determined the Peer Group and Expense Universe for the Fund and provided the comparative data. The Board noted that the Fund's overall expense ratio was higher than the median overall expense ratios of the Fund's Peer Group and Expense Universe, including and excluding investment-related expenses and taxes. The Board also noted, however, that the non-management expense ratio of the Fund was comparable to the median of the Fund's Peer Group's non-management expense ratios.

Based on the above-referenced considerations and other factors, the Board concluded that the overall performance results and expense comparisons supported the re-approval of the Advisory Agreements.

Investment Advisory and Sub-Advisory Fee Rates

The Board reviewed the contractual investment advisory fee rate (the "Advisory Agreement Rate") payable by the Fund to Credit Suisse for investment advisory services. The Board also reviewed the contractual investment sub-advisory fee rate (the "Sub-Advisory Agreement Rate") payable by Credit Suisse to CELFIN for investment sub-advisory services. The Board noted that Credit Suisse had contractually agreed to base its current investment advisory fee upon the lower of the Fund's average weekly stock price or its average weekly net assets.

Additionally, the Board considered information comparing the Advisory Agreement Rate (both on a stand-alone basis and on a combined basis with the Fund's administration fee rates) with that of the other funds in its Peer Group. The Board noted that the Fund's Advisory Agreement Rate was not significantly higher than the median advisory rate of its Peer Group. The Board also noted, however, that the combined rate of investment advisory and administration fees for the Fund was slightly higher than the median rate of the Fund's Peer Group and appreciably higher than the median rate of the Fund's Expense Universe. The Board noted that the Fund's administrator is not affiliated with Credit Suisse and that the Fund's administration agreement and corresponding fees were negotiated at arm's length. The Board concluded that these and other factors supported the Advisory Agreement Rate.

The Board also reviewed the Sub-Advisory Agreement Rate charged by CELFIN, which is payable by Credit Suisse and not by the Fund, and concluded that it was not excessive.

Profitability

The Board received and considered an estimated profitability analysis of Credit Suisse based on the Advisory Agreement Rate and on revenues earned from other relationships between the Fund and Credit Suisse and its

ADVISORY AGREEMENT APPROVAL DISCLOSURE (UNAUDITED) (CONTINUED)

affiliates. The Board concluded that, in light of the costs of providing investment management and other services to the Fund, the profits and other ancillary benefits that Credit Suisse and its affiliates derived from providing these services to the Fund were not excessive.

The Board also received and considered a profit statement related to the Fund from CELFIN. The Board observed the costs of providing portfolio management and other services to the Fund. The Board also noted that the sub-advisory fees are paid to CELFIN by Credit Suisse and not directly by the Fund, and were negotiated at arm's length. Based on these factors, the Board concluded that the profits and other ancillary benefits that CELFIN and its affiliates received with regard to providing these services to the Fund were not excessive.

Economies of Scale

The Board considered information regarding whether there have been economies of scale with respect to the management of the Fund, whether the Fund has appropriately benefited from any economies of scale, and whether there is potential for realization of any further economies of scale. The Board concluded that any actual or potential economies of scale are shared fairly with Fund shareholders, including most particularly through Advisory Agreement Rate breakpoints.

Information about Services to Other Clients

The Board considered information about the nature and extent of services and fee rates offered by Credit Suisse to other clients, including other registered investment companies, separate accounts and institutional investors and investment companies to which Credit Suisse serves as an unaffiliated sub-adviser. The Board also considered information about the nature and extent of services offered, and general information about the fees charged, by CELFIN to other clients. The Board concluded that the Advisory Agreement Rate and Sub-Advisory Agreement Rate were not excessive, given the nature and extent of services offered and comparison with rates charged to other clients.

Other Benefits to Credit Suisse

The Board also considered information regarding potential "fall-out" or ancillary benefits received by Credit Suisse, CELFIN and their respective affiliates as a result of their relationship with the Fund. In particular, the Board considered that Credit Suisse and CELFIN may gain certain reputational benefits from managing the Fund.

Other Factors and Broader Review

As discussed above, the Board reviews detailed materials received from Credit Suisse and CELFIN as part of the annual re-approval process. The Board also reviews and assesses the quality of the services that the Fund receives throughout the year. In this regard, the Board reviews reports of Credit Suisse and CELFIN at least quarterly, which include, among other things, detailed portfolio and market reviews and detailed fund performance reports.

After considering the above-described factors and based on the deliberations and its evaluation of the information provided to it, the Board concluded that re-approval of the Advisory Agreements for the Fund was in the best interest of the Fund and its shareholders. Accordingly, the Board members unanimously re-approved the Advisory Agreements.

PROXY VOTING AND PORTFOLIO HOLDINGS INFORMATION (UNAUDITED)

Information regarding how the Fund voted proxies related to its portfolio securities during the 12-month period ended June 30, of each year, as well as the policies and procedures that the Fund uses to determine how to vote proxies relating to its portfolio securities are available:

by calling 1-800-293-1232;

on the Fund's website, www.credit-suisse.com/us

on the website of the Securities and Exchange Commission, www.sec.gov.

The Fund files a complete schedule of its portfolio holdings for the first and third quarters of its fiscal year with the SEC on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at www.sec.gov and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the SEC's Public Reference Room may be obtained by calling 1-202-551-8090.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that The Chile Fund, Inc. may from time to time purchase shares of its capital stock in the open market.

DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN (UNAUDITED)

The Chile Fund, Inc. (the "Fund") offers a Dividend Reinvestment and Cash Purchase Plan (the "Plan") to its common stockholders. The Plan offers common stockholders a prompt and simple way to reinvest net investment income dividends and capital gains and other periodic distributions in shares of the Fund's common stock. Computershare Trust Company, N.A. ("Computershare") acts as Plan Agent for stockholders in administering the Plan.

Participation in the Plan is voluntary. In order to participate in the Plan, you must be a registered holder of at least one share of stock of the Fund. If you are a beneficial owner of the Fund having your shares registered in the name of a bank, broker or other nominee, you must first make arrangements with the organization in whose name your shares are registered to have the shares transferred into your own name. Registered shareholders can join the Plan via the Internet by going to www.computershare.com, authenticating your online account, agreeing to the Terms and Conditions of online "Account Access" and completing an online Plan Enrollment Form. Alternatively, you can complete the Plan Enrollment Form and return it to Computershare at the address below.

By participating in the Plan, your dividends and distributions will be promptly paid to you in additional shares of common stock of the Fund. The number of shares to be issued to you will be determined by dividing the total amount of the distribution payable to you by the greater of (i) the net asset value per share ("NAV") of the Fund's common stock on the payment date, or (ii) 95% of the market price per share of the Fund's common stock on the payment date. If the NAV of the Fund's common stock is greater than the market price (plus estimated brokerage commissions) on the payment date, then Computershare (or a broker-dealer selected by Computershare) shall endeavor to apply the amount of such distribution on your shares to purchase shares of Fund common stock in the open market.

You should be aware that all net investment income dividends and capital gain distributions are taxable to you as ordinary income and capital gain, respectively, whether received in cash or reinvested in additional shares of the Fund's common stock.

The Plan also permits participants to purchase shares of the Fund through Computershare. You may invest $100 or more monthly, with a maximum of $100,000 in any annual period. Computershare will purchase shares for you on the open market on the 25th of each month or the next trading day if the 25th is not a trading day.

There is no service fee payable by Plan participants for dividend reinvestment. For voluntary cash payments, Plan participants must pay a service fee of $5.00 per transaction. Plan participants will also be charged a pro rata share of the brokerage commissions for all open market purchases ($0.03 per share as of October 2006). Participants will also be charged a service fee of $5.00 for each sale and brokerage commissions of $0.03 per share (as of October 2006).

You may terminate your participation in the Plan at any time by requesting a certificate or a sale of your shares held in the Plan. Your withdrawal will be effective immediately if your notice is received by Computershare prior to any dividend or distribution record date; otherwise, such termination will be effective only with respect to any subsequent dividend or distribution. Your dividend participation option will remain the same unless you withdraw all of your whole and fractional Plan shares, in which case your participation in the Plan will be terminated and you will receive subsequent dividends and capital gains distributions in cash instead of shares.

DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN (UNAUDITED) (CONTINUED)

If you want further information about the Plan, including a brochure describing the Plan in greater detail, please contact Computershare as follows:

By Internet:	www.computershare.com
By phone:	(800) 730-6001 (U.S. and Canada)
	(781) 575-3100 (Outside U.S. and Canada)
	Customer service associates are available from 9:00 a.m. to 5:00 p.m. Eastern time, Monday through Friday
By mail:	The Chile Fund, Inc.
	c/o Computershare
	P.O. Box 43078
	Providence, Rhode Island 02940-3078
	All notices, correspondence, questions or other communications sent by mail should be sent by registered or certified mail, return receipt requested.

The Plan may be terminated by the Fund or Computershare upon notice in writing mailed to each participant at least 30 days prior to any record date for the payment of any dividend or distribution.

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FUNDS MANAGED BY CREDIT SUISSE ASSET MANAGEMENT, LLC

CLOSED-END FUNDS

Single Country

The Chile Fund, Inc. (AMEX: CH)

The First Israel Fund, Inc. (AMEX: ISL)

The Indonesia Fund, Inc. (AMEX: IF)

Multiple Country

The Emerging Markets Telecommunications Fund, Inc. (AMEX: ETF)

The Latin America Equity Fund, Inc. (AMEX: LAQ)

Fixed Income

Credit Suisse Asset Management Income Fund, Inc. (AMEX: CIK)

Credit Suisse High Yield Bond Fund (AMEX: DHY)

Literature Request Call today for free descriptive information on the closed-end funds listed above at 800-293-1232 or visit our website at www.credit-suisse.com/us.

OPEN-END FUNDS

Credit Suisse Commodity Return Strategy Fund

Credit Suisse Global Fixed Income Fund

Credit Suisse Global Small Cap Fund

Credit Suisse High Income Fund

Credit Suisse International Focus Fund

Credit Suisse Large Cap Blend Fund

Credit Suisse Large Cap Growth Fund

Credit Suisse Large Cap Value Fund

Credit Suisse Mid-Cap Core Fund

Credit Suisse Small Cap Core Fund

Fund shares are not deposits or other obligations of Credit Suisse Asset Management, LLC or any affiliate, are not FDIC-insured and are not guaranteed by Credit Suisse Asset Management, LLC or any affiliate. Fund investments are subject to investment risks, including loss of your investment. There are special risk considerations associated with international, global, emerging-market, small-company, private equity, high-yield debt, single-industry, single-country and other special, aggressive or concentrated investment strategies. Past performance cannot guarantee future results.

More complete information about a fund, including charges and expenses, is provided in the Prospectus, which should be read carefully before investing. You may obtain copies by calling Credit Suisse Funds at 800-927-2874. Performance information current to the most recent month-end is available at www.credit-suisse.com/us.

Credit Suisse Asset Management Securities, Inc., Distributor.

DIRECTORS AND CORPORATE OFFICERS

Enrique R. Arzac	Chairman of the Board of Directors
James J. Cattano	Director
Lawrence J. Fox	Director
Steven N. Rappaport	Director
Martin M. Torino	Director
George R. Hornig	Chief Executive Officer and President
Matthew J.K. Hickman	Chief Investment Officer
J. Kevin Gao	Chief Legal Officer, Senior Vice President and Secretary
Emidio Morizio	Chief Compliance Officer
Michael A. Pignataro	Chief Financial Officer
Cecilia Chau	Treasurer

INVESTMENT ADVISER

Credit Suisse Asset Management, LLC

Eleven Madison Avenue

New York, NY 10010

INVESTMENT SUB-ADVISER

Celfin Capital Servicios Financieros S.A.

Apoquindo 3721, Piso 19

Santiago, Chile

ADMINISTRATOR AND CUSTODIAN

Brown Brothers Harriman & Co.

40 Water Street

Boston, MA 02109

SHAREHOLDER SERVICING AGENT

Computershare Trust Company, N.A.

P.O. Box 43078

Providence, RI 02940

INDEPENDENT REGISTERED PUBLIC

ACCOUNTING FIRM

PricewaterhouseCoopers LLP

100 East Pratt Street

Baltimore, MD 21202

LEGAL COUNSEL

Willkie Farr & Gallagher LLP

787 Seventh Avenue

New York, NY 10019

This report, including the financial statements herein, is sent to the shareholders of the Fund for their information. It is not a prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in this report.

CH-AR-1208

Item 2. Code of Ethics.

The registrant has adopted a code of ethics applicable to its Chief Executive Officer, President, Chief Financial Officer and Chief Accounting Officer, or persons performing similar functions. A copy of the code is filed as Exhibit 12(a)(1) to this Form. There were no amendments to the code during the fiscal year ended December 31, 2008. There were no waivers or implicit waivers from the code granted by the registrant during the fiscal year ended December 31, 2008.

Item 3. Audit Committee Financial Expert.

The registrant s governing board has determined that it has two audit committee financial experts serving on its audit committee: Enrique R. Arzac and Steven N. Rappaport. Each audit committee financial expert is independent for purposes of this item.

Item 4. Principal Accountant Fees and Services.

(a) through (d). The information in the table below is provided for services rendered to the registrant by its independent registered public accounting firm, PricewaterhouseCoopers LLP (PwC), for its fiscal years ended December 31, 2007 and December 31, 2008.

	2007	2008
Audit Fees	$ 60,120	$ 64,980
Audit-Related Fees(1)	$ 3,340	$ 3,400
Tax Fees(2)	$ 8,345	$ 2,800
All Other Fees		
Total	$ 71,805	$ 71,180

(1) Services include agreed-upon procedures in connection with the registrant s semi-annual financial statements ($3,340 in 2007 and $3,400 in 2008).

(2) Tax services in connection with the registrant s excise tax calculations and review of the registrant s applicable tax returns.

The information in the table below is provided with respect to non-audit services that directly relate to the registrant s operations and financial reporting and that were rendered by PwC to the registrant s investment adviser, Credit Suisse Asset Management, LLC (Credit Suisse), and any service provider to the registrant controlling, controlled by or under common control with Credit Suisse that provided ongoing services to the registrant (Covered Services Provider), for the registrant s fiscal years ended December 31, 2007 and December 31, 2008.

	2007	2008
Audit-Related Fees	N/A	N/A
Tax Fees	N/A	N/A
All Other Fees	N/A	N/A
Total	N/A	N/A

(e)(1) Pre-Approval Policies and Procedures. The Audit Committee (Committee) of the registrant is responsible for pre-approving (i) all audit and permissible non-audit services to be provided by the independent registered public accounting firm to the registrant and (ii) all permissible non-audit services to be provided by the independent registered public accounting firm to Credit Suisse and any Covered Services Provider if the engagement relates directly to the operations and financial reporting of the registrant. The Committee may delegate its responsibility to pre-approve any such audit and permissible non-audit services to the Chairperson of the Committee, and the Chairperson shall report to the Committee, at its next regularly scheduled meeting after the Chairperson s pre-approval of such services, his or her decision(s). The Committee may also establish detailed pre-approval policies and procedures for pre-approval of such services in accordance with applicable laws, including the delegation of some or all of the Committee s pre-approval responsibilities to other persons (other than Credit Suisse or the registrant s officers). Pre-approval by the Committee of any permissible non-audit services shall not be required so long as: (i) the aggregate amount of all such permissible non-audit services provided to the registrant, Credit Suisse and any Covered Services Provider constitutes not more than 5% of the total amount of revenues paid by the registrant to its independent registered public accounting firm during the fiscal year in which the permissible non-audit services are provided; (ii) the permissible non-audit services were not recognized by the registrant at the time of the engagement to be non-audit services; and (iii) such services are promptly brought to the attention of the Committee and approved by the Committee (or its delegate(s)) prior to the completion of the audit.

(e)(2) The information in the table below sets forth the percentages of fees for services (other than audit, review or attest services) rendered by PwC to the registrant for which the pre-approval requirement was waived pursuant to Rule 2-01(c)(7)(i)(C) of Regulation S-X:

	2007	2008
Audit-Related Fees	N/A	N/A
Tax Fees	N/A	N/A
All Other Fees	N/A	N/A
Total	N/A	N/A

The information in the table below sets forth the percentages of fees for services (other than audit, review or attest services) rendered by PwC to Credit Suisse and any Covered Services Provider required to be approved pursuant to Rule 2-01(c)(7)(ii)of Regulation S-X, for the registrant s fiscal years ended December 31, 2007 and December 31, 2008:

	2007	2008
Audit-Related Fees	N/A	N/A
Tax Fees	N/A	N/A
All Other Fees	N/A	N/A
Total	N/A	N/A

(f) Not Applicable.

(g) The aggregate fees billed by PwC for non-audit services rendered to the registrant, Credit Suisse and Covered Service Providers for the fiscal years ended December 31, 2007 and December 31, 2008 were $11,685 and $6,200, respectively.

(h) Not Applicable.

Item 5. Audit Committee of Listed Registrants.

The registrant has a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. The members of the committee are Enrique Arzac, James Cattano, Lawrence Fox, Steven Rappaport and Martin Torino.

Item 6. Schedule of Investments.

Included as part of the report to shareholders filed under Item 1 of this Form.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.

CREDIT SUISSE ASSET MANAGEMENT, LLC

CREDIT SUISSE FUNDS

CREDIT SUISSE INSTITUTIONAL FUNDS

CREDIT SUISSE CLOSED-END FUNDS

PROXY VOTING POLICY AND PROCEDURES

Introduction

Credit Suisse Asset Management, LLC (Credit Suisse) is a fiduciary that owes each of its clients duties of care and loyalty with respect to proxy voting. The duty of care requires Credit Suisse to monitor corporate events and to vote proxies. To satisfy its duty of loyalty, Credit Suisse must cast proxy votes in the best interests of each of its clients.

The Credit Suisse Funds, Credit Suisse Institutional Funds, and Credit Suisse Closed-End Funds (the Funds), which have engaged Credit Suisse Asset Management, LLC as their investment adviser, are of the belief that the proxy voting process is a means of addressing corporate governance issues and encouraging corporate actions both of which can enhance shareholder value.

Policy

The Proxy Voting Policy (the Policy) set forth below is designed to ensure that proxies are voted in the best interests of Credit Suisse s clients. The Policy addresses particular issues and gives a general indication of how Credit Suisse will vote proxies. The Policy is not exhaustive and does not include all potential issues.

Proxy Voting Committee

The Proxy Voting Committee will consist of a member of the Portfolio Management Department, a member of the Legal and Compliance Department, and a member of the Operations Department (or their designees). The purpose of the Proxy Voting Committee is to administer the voting of all clients proxies in accordance with the Policy. The Proxy Voting Committee will review the Policy annually to ensure that it is designed to promote the best interests of Credit Suisse s clients.

For the reasons disclosed below under Conflicts, the Proxy Voting Committee has engaged the services of an independent third party (initially, Risk Metrics Group s ISS Governance Services Unit (ISS)) to assist in issue analysis and vote recommendation for proxy proposals. Proxy proposals addressed by the Policy will be voted in accordance with the Policy. Proxy proposals

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addressed by the Policy that require a case-by-case analysis will be voted in accordance with the vote recommendation of ISS. Proxy proposals not addressed by the Policy will also be voted in accordance with the vote recommendation of ISS. To the extent that the Proxy Voting Committee proposes to deviate from the Policy or the ISS vote recommendation, the Committee shall obtain client consent as described below.

Credit Suisse investment professionals may submit a written recommendation to the Proxy Voting Committee to vote in a manner inconsistent with the Policy and/or the recommendation of ISS. Such recommendation will set forth its basis and rationale. In addition, the investment professional must confirm in writing that he/she is not aware of any conflicts of interest concerning the proxy matter or provide a full and complete description of the conflict.

Conflicts

Credit Suisse is part of the asset management business of Credit Suisse one of the world s leading banks. As part of a global, full service investment-bank, broker-dealer, and asset-management organization, Credit Suisse and its affiliates and personnel may have multiple advisory, transactional, financial, and other interests in securities, instruments, and companies that may be purchased or sold by Credit Suisse for its clients accounts. The interests of Credit Suisse and/or its affiliates and personnel may conflict with the interests of Credit Suisse s clients in connection with any proxy issue. In addition, Credit Suisse may not be able to identify all of the conflicts of interest relating to any proxy matter.

Consent

In each and every instance in which the Proxy Voting Committee favors voting in a manner that is inconsistent with the Policy or the vote recommendation of ISS (including proxy proposals addressed and not addressed by the Policy), it shall disclose to the client conflicts of interest information and obtain client consent to vote. Where the client is a Fund, disclosure shall be made to any one director who is not an interested person, as that term is defined under the Investment Company Act of 1940, as amended, of the Fund.

Recordkeeping

Credit Suisse is required to maintain in an easily accessible place for six years all records relating to proxy voting.

These records include the following:

- a copy of the Policy;
- a copy of each proxy statement received on behalf of Credit Suisse clients;

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- a record of each vote cast on behalf of Credit Suisse clients;
- a copy of all documents created by Credit Suisse personnel that were material to making a decision on a vote or that memorializes the basis for the decision; and
- a copy of each written request by a client for information on how Credit Suisse voted proxies, as well as a copy of any written response.

Credit Suisse reserves the right to maintain certain required proxy records with ISS in accordance with all applicable regulations.

Disclosure

Credit Suisse will describe the Policy to each client. Upon request, Credit Suisse will provide any client with a copy of the Policy. Credit Suisse will also disclose to its clients how they can obtain information on their proxy votes.

ISS will capture data necessary for Funds to file Form N-PX on an annual basis concerning their proxy voting record in accordance with applicable law.

Procedures

The Proxy Voting Committee will administer the voting of all client proxies. Credit Suisse has engaged ISS as an independent third party proxy voting service to assist in the voting of client proxies. ISS will coordinate with each client s custodian to ensure that proxy materials reviewed by the custodians are processed in a timely fashion. ISS will provide Credit Suisse with an analysis of proxy issues and a vote recommendation for proxy proposals. ISS will refer proxies to the Proxy Voting Committee for instructions when the application of the Policy is not clear. The Proxy Voting Committee will notify ISS of any changes to the Policy or deviating thereof.

PROXY VOTING POLICY

Operational Items

Adjourn Meeting

Proposals to provide management with the authority to adjourn an annual or special meeting will be determined on a case-by-case basis.

Amend Quorum Requirements

Proposals to reduce quorum requirements for shareholder meetings below a majority of the shares outstanding will be determined on a case-by-case basis.

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Amend Minor Bylaws

Generally vote for bylaw or charter changes that are of a housekeeping nature.

Change Date, Time, or Location of Annual Meeting

Generally vote for management proposals to change the date/time/location of the annual meeting unless the proposed change is unreasonable. Generally vote against shareholder proposals to change the date/time/location of the annual meeting unless the current scheduling or location is unreasonable.

Ratify Auditors

Generally vote for proposals to ratify auditors unless: (1) an auditor has a financial interest in or association with the company, and is therefore not independent; (2) fees for non-audit services are excessive, or (3) there is reason to believe that the independent auditor has rendered an opinion, which is neither accurate nor indicative of the company s financial position. Generally vote on a case-by-case basis on shareholder proposals asking companies to prohibit their auditors from engaging in non-audit services (or capping the level of non-audit services). Generally vote on a case-by-case basis on auditor rotation proposals taking into consideration: (1) tenure of audit firm; (2) establishment and disclosure of a renewal process whereby the auditor is regularly evaluated for both audit quality and competitive price; (3) length of the rotation period advocated in the proposal, and (4) significant audit related issues.

Board of Directors

Voting on Director Nominees in Uncontested Elections

Generally votes on director nominees on a case-by-case basis. Votes may be withheld: (1) from directors who attended less than 75% of the board and committee meetings without a valid reason for the absences; (2) implemented or renewed a dead-hand poison pill; (3) ignored a shareholder proposal that was approved by a majority of the votes cast for two consecutive years; (4) ignored a shareholder proposal approved by a majority of the shares outstanding; (5) have failed to act on takeover offers where the majority of the shareholders have tendered their shares; (6) are inside directors or affiliated outside directors and sit on the audit, compensation, or nominating committee; (7) are inside directors or affiliated outside directors and the full board serves as the audit, compensation, or nominating committee or the company does not have one of these committees; or (8) are audit committee members and the non-audit fees paid to the auditor are excessive

Cumulative Voting

Proposals to eliminate cumulative voting will be determined on a case-by-case basis. Proposals to restore or provide for cumulative voting in the absence of sufficient good governance provisions and/or poor relative shareholder returns will be determined on a case-by-case basis.

Director and Officer Indemnification and Liability Protection

Proposals on director and officer indemnification and liability protection generally evaluated on a case-by-case basis. Generally vote against proposals that would: (1) eliminate entirely directors and officers liability for monetary damages for violating the duty of care; or (2) expand coverage beyond just legal expenses to acts, such as negligence, that are more serious violations of fiduciary obligation than mere carelessness. Generally vote for only those proposals providing such expanded coverage in cases when a director s or officer s legal defense was unsuccessful if: (1) the director was found to have acted in good faith and in a manner that he reasonably believed was in the best interests of the company, and (2) only if the director s legal expenses would be covered.

Filling Vacancies/Removal of Directors

Generally vote against proposals that provide that directors may be removed only for cause. Generally vote for proposals to restore shareholder ability to remove directors with or without cause. Proposals that provide that only continuing directors may elect replacements to fill board vacancies will be determined on a case-by-case basis. Generally vote for proposals that permit shareholders to elect directors to fill board vacancies.

Independent Chairman (Separate Chairman/CEO)

Generally vote for shareholder proposals requiring the position of chairman be filled by an independent director unless there are compelling reasons to recommend against the proposal, including: (1) designated lead director, elected by and from the independent board members with clearly delineated duties; (2) 2/3 independent board; (3) all independent key committees; or (4) established governance guidelines.

Majority of Independent Directors

Generally vote for shareholder proposals requiring that the board consist of a majority or substantial majority (two-thirds) of independent directors unless the board composition already meets the adequate threshold. Generally vote for shareholder proposals requiring the board audit, compensation, and/or nominating committees be composed exclusively of independent directors if they currently do not meet that standard. Generally withhold votes from insiders and affiliated outsiders sitting on the audit, compensation, or nominating committees. Generally withhold votes from insiders and affiliated outsiders on boards that are

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lacking any of these three panels. Generally withhold votes from insiders and affiliated outsiders on boards that are not at least majority independent.

Term Limits

Generally vote against shareholder proposals to limit the tenure of outside directors.

Proxy Contests

Voting on Director Nominees in Contested Elections

Votes in a contested election of directors should be decided on a case-by-case basis, with shareholders determining which directors are best suited to add value for shareholders. The major decision factors are: (1) company performance relative to its peers; (2) strategy of the incumbents versus the dissidents; (3) independence of directors/nominees; (4) experience and skills of board candidates; (5) governance profile of the company; (6) evidence of management entrenchment; (7) responsiveness to shareholders; or (8) whether takeover offer has been rebuffed.

Amend Bylaws without Shareholder Consent

Proposals giving the board exclusive authority to amend the bylaws will be determined on a case-by-case basis. Proposals giving the board the ability to amend the bylaws in addition to shareholders will be determined on a case-by-case basis.

Confidential Voting

Generally vote for shareholder proposals requesting that corporations adopt confidential voting, use independent vote tabulators and use independent inspectors of election, as long as the proposal includes a provision for proxy contests as follows: In the case of a contested election, management should be permitted to request that the dissident group honor its confidential voting policy. If the dissidents agree, the policy may remain in place. If the dissidents will not agree, the confidential voting policy may be waived. Generally vote for management proposals to adopt confidential voting.

Cumulative Voting

Proposals to eliminate cumulative voting will be determined on a case-by-case basis. Proposals to restore or provide for cumulative voting in the absence of sufficient good governance provisions and/or poor relative shareholder returns will be determined on a case-by-case basis.

Antitakeover Defenses and Voting Related Issues

Advance Notice Requirements for Shareholder Proposals/Nominations

Votes on advance notice proposals are determined on a case-by-case basis.

Amend Bylaws without Shareholder Consent

Proposals giving the board exclusive authority to amend the bylaws will be determined on a case-by-case basis. Generally vote for proposals giving the board the ability to amend the bylaws in addition to shareholders.

Poison Pills (Shareholder Rights Plans)

Generally vote for shareholder proposals requesting that the company submit its poison pill to a shareholder vote or redeem it. Votes regarding management proposals to ratify a poison pill should be determined on a case-by-case basis. Plans should embody the following attributes: (1) 20% or higher flip-in or flip-over; (2) two to three year sunset provision; (3) no dead-hand or no-hand features; or (4) shareholder redemption feature

Shareholders Ability to Act by Written Consent

Generally vote against proposals to restrict or prohibit shareholders ability to take action by written consent. Generally vote for proposals to allow or make easier shareholder action by written consent.

Shareholders Ability to Call Special Meetings

Proposals to restrict or prohibit shareholders ability to call special meetings or that remove restrictions on the right of shareholders to act independently of management will be determined on a case-by-case basis.

Supermajority Vote Requirements

Proposals to require a supermajority shareholder vote will be determined on a case-by-case basis Proposals to lower supermajority vote requirements will be determined on a case-by-case basis.

Merger and Corporate Restructuring

Appraisal Rights

Generally vote for proposals to restore, or provide shareholders with, rights of appraisal.

Asset Purchases

Generally vote case-by-case on asset purchase proposals, taking into account: (1) purchase price, including earnout and contingent payments; (2) fairness opinion; (3) financial and strategic benefits; (4) how the deal was negotiated; (5) conflicts of interest; (6) other alternatives for the business; or (7) noncompletion risk (company s going concern prospects, possible bankruptcy).

Asset Sales

Votes on asset sales should be determined on a case-by-case basis after considering: (1) impact on the balance sheet/working capital; (2) potential elimination of diseconomies; (3) anticipated financial and operating benefits; (4) anticipated use of funds; (5) value received for the asset; fairness opinion (if any); (6) how the deal was negotiated; or (6) Conflicts of interest

Conversion of Securities

Votes on proposals regarding conversion of securities are determined on a case-by-case basis. When evaluating these proposals, should review (1) dilution to existing shareholders position; (2) conversion price relative to market value; (3) financial issues: company s financial situation and degree of need for capital; effect of the transaction on the company s cost of capital; (4) control issues: change in management; change in control; standstill provisions and voting agreements; guaranteed contractual board and committee seats for investor; veto power over certain corporate actions; (5) termination penalties; (6) conflict of interest: arm s length transactions, managerial incentives. Generally vote for the conversion if it is expected that the company will be subject to onerous penalties or will be forced to file for bankruptcy if the transaction is not approved.

Corporate Reorganization

Votes on proposals to increase common and/or preferred shares and to issue shares as part of a debt restructuring plan are determined on a case-by-case basis, after evaluating: (1) dilution to existing shareholders position; (2) terms of the offer; (3) financial issues; (4) management s efforts to pursue other alternatives; (5) control issues; (6) conflict of interest. Generally vote for the debt restructuring if it is expected that the company will file for bankruptcy if the transaction is not approved.

Reverse Leveraged Buyouts

Votes on proposals to increase common and/or preferred shares and to issue shares as part of a debt restructuring plan are determined on a case-by-case basis, after evaluating: (1) dilution to existing shareholders position; (2) terms of the offer; (3) financial issues; (4) management s efforts to pursue other alternatives; (5) control issues; (6) conflict of interest. Generally vote

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for the debt restructuring if it is expected that the company will file for bankruptcy if the transaction is not approved.

Formation of Holding Company

Votes on proposals regarding the formation of a holding company should be determined on a case-by-case basis taking into consideration: (1) the reasons for the change; (2) any financial or tax benefits; (3) regulatory benefits; (4) increases in capital structure; (5) changes to the articles of incorporation or bylaws of the company. Absent compelling financial reasons to recommend the transaction, generally vote against the formation of a holding company if the transaction would include either of the following: (1) increases in common or preferred stock in excess of the allowable maximum as calculated a model capital structure; (2) adverse changes in shareholder rights; (3) going private transactions; (4) votes going private transactions on a case-by-case basis, taking into account: (a) offer price/premium; (b) fairness opinion; (c) how the deal was negotiated; (d) conflicts of interest; (e) other alternatives/offers considered; (f) noncompletion risk.

Joint Ventures

Vote on a case-by-case basis on proposals to form joint ventures, taking into account: (1) percentage of assets/business contributed; (2) percentage ownership; (3) financial and strategic benefits; (4) governance structure; (5) conflicts of interest; (6) other alternatives; (7) noncompletion risk; (8) liquidations. Votes on liquidations should be determined on a case-by-case basis after reviewing: (1) management s efforts to pursue other alternatives such as mergers; (2) appraisal value of the assets (including any fairness opinions); (3) compensation plan for executives managing the liquidation. Generally vote for the liquidation if the company will file for bankruptcy if the proposal is not approved.

Mergers and Acquisitions

Votes on mergers and acquisitions should be considered on a case-by-case basis, determining whether the transaction enhances shareholder value by giving consideration to: (1) prospects of the combined companies; (2) anticipated financial and operating benefits; (3) offer price; (4) fairness opinion; (5) how the deal was negotiated; (6) changes in corporate governance and their impact on shareholder rights; (7) change in the capital structure; (8) conflicts of interest.

Private Placements

Votes on proposals regarding private placements should be determined on a case-by-case basis. When evaluating these proposals, should review: (1) dilution to existing shareholders position; (2) terms of the offer; (3) financial issues; (4) management s efforts to pursue alternatives such as mergers; (5) control issues; (6) conflict of interest. Generally vote for the private placement if it is expected that the company will file for bankruptcy if the transaction is not approved.

Prepackaged Bankruptcy Plans

Votes on proposals to increase common and/or preferred shares and to issue shares as part of a debt restructuring plan are determined on a case-by-case basis, after evaluating: (1) dilution to existing shareholders position; (2) terms of the offer; (3) financial issues; (4) management s efforts to pursue other alternatives; (5) control issues; (6) conflict of interest. Generally vote for the debt restructuring if it is expected that the company will file for bankruptcy if the transaction is not approved.

Recapitalization

Votes case-by-case on recapitalizations (reclassifications of securities), taking into account: (1) more simplified capital structure; (2) enhanced liquidity; (3) fairness of conversion terms, including fairness opinion; (4) impact on voting power and dividends; (5) reasons for the reclassification; (6) conflicts of interest; (7) other alternatives considered.

Reverse Stock Splits

Generally vote for management proposals to implement a reverse stock split when the number of authorized shares will be proportionately reduced. Generally vote for management proposals to implement a reverse stock split to avoid delisting. Votes on proposals to implement a reverse stock split that do not proportionately reduce the number of shares authorized for issue should be determined on a case-by-case basis.

Spinoffs

Votes on spinoffs should be considered on a case-by-case basis depending on: (1) tax and regulatory advantages; (2) planned use of the sale proceeds; (3) valuation of spinoff; fairness opinion; (3) benefits that the spinoff may have on the parent company including improved market focus; (4) conflicts of interest; managerial incentives; (5) any changes in corporate governance and their impact on shareholder rights; (6) change in the capital structure

Value Maximization Proposals

Vote case-by-case on shareholder proposals seeking to maximize shareholder value.

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Capital Structure

Adjustments to Par Value of Common Stock

Generally vote for management proposals to reduce the par value of common stock unless the action is being taken to facilitate an antitakeover device or some other negative corporate governance action. Generally vote for management proposals to eliminate par value.

Common Stock Authorization

Votes on proposals to increase the number of shares of common stock authorized for issuance are determined on a case-by-case basis. Generally vote against proposals at companies with dual-class capital structures to increase the number of authorized shares of the class of stock that has superior voting rights. Generally vote for proposals to approve increases beyond the allowable increase when a company s shares are in danger of being delisted or if a company s ability to continue to operate as a going concern is uncertain.

Dual-class Stock

Generally vote against proposals to create a new class of common stock with superior voting rights. Generally vote for proposals to create a new class of nonvoting or subvoting common stock if: (1) it is intended for financing purposes with minimal or no dilution to current shareholders; (2) it is not designed to preserve the voting power of an insider or significant shareholder.

Issue Stock for Use with Rights Plan

Generally vote against proposals that increase authorized common stock for the explicit purpose of implementing a shareholder rights plan.

Preemptive Rights

Votes regarding shareholder proposals seeking preemptive rights should be determined on a case-by-case basis after evaluating: (1) the size of the company; (2) the shareholder base; (3) the liquidity of the stock

Preferred Stock

Generally vote against proposals authorizing the creation of new classes of preferred stock with unspecified voting, conversion, dividend distribution, and other rights (blank check preferred stock). Generally vote for proposals to create declawed blank check preferred stock (stock that cannot be used as a takeover defense). Generally vote for proposals to authorize preferred stock in cases where the company specifies the voting, dividend, conversion, and other rights of such stock and the terms of the preferred stock appear reasonable. Generally vote against proposals to increase the number of blank check preferred stock authorized for issuance when no shares have been issued or reserved for a specific purpose. Generally vote case-by-case on proposals to increase the number of blank check preferred shares after analyzing the number of preferred shares available for issue given a company s industry and performance in terms of shareholder returns.

Recapitalization

Vote case-by-case on recapitalizations (reclassifications of securities), taking into account: (1) more simplified capital structure; (2) enhanced liquidity; (3) fairness of conversion terms, including fairness opinion; (4) impact on voting power and dividends; (5) reasons for the reclassification; (6) conflicts of interest; (7) other alternatives considered.

Reverse Stock Splits

Generally vote for management proposals to implement a reverse stock split when the number of authorized shares will be proportionately reduced. Generally vote for management proposals to implement a reverse stock split to avoid delisting. Votes on proposals to implement a reverse stock split that do not proportionately reduce the number of shares authorized for issue should be determined on a case-by-case basis.

Share Repurchase Programs

Generally vote for management proposals to institute open-market share repurchase plans in which all shareholders may participate on equal terms.

Stock Distributions: Splits and Dividends

Generally vote for management proposals to increase the common share authorization for a stock split or share dividend, provided that the increase in authorized shares would not result in an excessive number of shares available for issuance.

Tracking Stock

Votes on the creation of tracking stock are determined on a case-by-case basis, weighing the strategic value of the transaction against such factors as: (1) adverse governance changes; (2) excessive increases in authorized capital stock; (3) unfair method of distribution; (4) diminution of voting rights; (5) adverse conversion features; (6) negative impact on stock option plans; (7) other alternatives such as a spinoff.

Executive and Director Compensation

Executive and Director Compensation

Votes on compensation plans for directors are determined on a case-by-case basis.

Stock Plans in Lieu of Cash

Votes for plans which provide participants with the option of taking all or a portion of their cash compensation in the form of stock are determined on a case-by-case basis. Generally vote for plans which provide a dollar-for-dollar cash for stock exchange. Votes for plans which do not provide a dollar-for-dollar cash for stock exchange should be determined on a case-by-case basis.

Director Retirement Plans

Generally vote against retirement plans for nonemployee directors. Generally vote for shareholder proposals to eliminate retirement plans for nonemployee directors.

Management Proposals Seeking Approval to Reprice Options

Votes on management proposals seeking approval to reprice options are evaluated on a case-by-case basis giving consideration to the following: (1) historic trading patterns; (2) rationale for the repricing; (3) value-for-value exchange; (4) option vesting; (5) term of the option; (6) exercise price; (7) participants; (8) employee stock purchase plans. Votes on employee stock purchase plans should be determined on a case-by-case basis. Generally vote for employee stock purchase plans where: (1) purchase price is at least 85 percent of fair market value; (2) offering period is 27 months or less, and (3) potential voting power dilution (VPD) is ten percent or less. Generally vote against employee stock purchase plans where either: (1) purchase price is less than 85 percent of fair market value; (2) Offering period is greater than 27 months, or (3) VPD is greater than ten percent

Incentive Bonus Plans and Tax Deductibility Proposals

Generally vote for proposals that simply amend shareholder-approved compensation plans to include administrative features or place a cap on the annual grants any one participant may receive. Generally vote for proposals to add performance goals to existing compensation plans. Votes to amend existing plans to increase shares reserved and to qualify for favorable tax treatment considered on a case-by-case basis. Generally vote for cash or cash and stock bonus plans that are submitted to shareholders for the purpose of exempting compensation from taxes if no increase in shares is requested.

Employee Stock Ownership Plans (ESOPs)

Generally vote for proposals to implement an ESOP or increase authorized shares for existing ESOPs, unless the number of shares allocated to the ESOP is excessive (more than five percent of outstanding shares.)

401(k) Employee Benefit Plans

Generally vote for proposals to implement a 401(k) savings plan for employees.

Shareholder Proposals Regarding Executive and Director Pay

Generally vote for shareholder proposals seeking additional disclosure of executive and director pay information, provided the information requested is relevant to shareholders needs, would not put the company at a competitive disadvantage relative to its industry, and is not unduly burdensome to the company. Generally vote against shareholder proposals seeking to set absolute levels on compensation or otherwise dictate the amount or form of compensation. Generally vote against shareholder proposals requiring director fees be paid in stock only. Generally vote for shareholder proposals to put option repricings to a shareholder vote. Vote for shareholders proposals to exclude pension fund income in the calculation of earnings used in determining executive bonuses/compensation. Vote on a case-by-case basis for all other shareholder proposals regarding executive and director pay, taking into account company performance, pay level versus peers, pay level versus industry, and long term corporate outlook.

Performance-Based Option Proposals

Generally vote for shareholder proposals advocating the use of performance-based equity awards (indexed, premium-priced, and performance-vested options), unless: (1) the proposal is overly restrictive; or (2) the company demonstrates that it is using a substantial portion of performance-based awards for its top executives.

Stock Option Expensing

Generally vote for shareholder proposals asking the company to expense stock options unless the company has already publicly committed to start expensing by a specific date.

Golden and Tin Parachutes

Generally vote for shareholder proposals to require golden and tin parachutes to be submitted for shareholder ratification, unless the proposal requires shareholder approval prior to entering into employment contracts. Vote on a case-by-case basis on proposals to ratify or cancel golden or tin parachutes.

Item 8. Portfolio Managers of Closed-End Management Investment Companies.

Information pertaining to the Chief Investment Officer of The Chile Fund, Inc., as of December 31, 2008, is set forth below.

Matthew Hickman Chief Investment Officer Since 2004 Year of Birth: 1964	Director of Credit Suisse; Financial Advisor with Global Advisors from July 2003 to November 2003; General Manager of Compass Group Investment Advisors S.A. from February 2002 to July 2003; Financial Advisor with Credit Suisse First Boston from August 2000 to February 2002; Director of ABN AMRO from September 1998 to August 2000; Officer of other Credit Suisse Funds

Registered Investment Companies, Pooled Investment Vehicles and Other Accounts Managed

As reported to the Registrant, the information in the following table reflects the number of registered investment companies, pooled investment vehicles and other accounts managed by Matthew Hickman and the total assets managed within each category as of December 31, 2008.

Registered Investment Companies		**Other Pooled Investment Vehicles**		**Other Accounts**	
3	$297 million	2	$219 million	0	N/A

No advisory fee is paid based on performance for any of the accounts listed above.

Potential Conflicts of Interest

It is possible that conflicts of interest may arise in connection with the portfolio managers management of the Portfolio s investments on the one hand and the investments of other accounts on the other. For example, the portfolio managers may have conflicts of interest in allocating management time, resources and investment opportunities among the Portfolio and other accounts they advise. In addition due to differences in the investment strategies or restrictions between the Portfolio and the other accounts, the portfolio managers may take action with respect to another account that differs from the action taken with respect to the Portfolio. Credit Suisse has adopted policies and procedures that are designed to minimize the effects of these conflicts.

If Credit Suisse believes that the purchase or sale of a security is in the best interest of more than one client, it may (but is not obligated to) aggregate the orders to be sold or purchased to seek favorable execution or lower brokerage commissions, to the extent permitted by applicable laws and regulations. Credit Suisse may aggregate orders if all participating client accounts benefit equally (i.e., all receive an average price of the aggregated orders). In the event Credit Suisse aggregates an order for participating accounts, the method of allocation will generally be determined prior to the trade execution. Although no specific method of allocation of transactions (as well as expenses incurred in the transactions) is expected to be used, allocations will be designed to ensure that over time all clients receive fair treatment consistent with Credit Suisse s fiduciary duty to its clients (including its duty to seek to obtain best execution of client trades). The accounts aggregated may include registered and unregistered investment companies managed by Credit Suisse s affiliates and accounts in which Credit Suisse s officers, directors, agents, employees or affiliates own interests. Applicant may not be able to aggregate securities transactions for clients who direct the use of a particular broker-dealer, and the client also may not benefit from any improved execution or lower commissions that may be available for such transactions.

Compensation

Credit Suisse s compensation to Mr. Hickman includes both a fixed base salary component and a bonus component. The bonus component is composed of two parts. The first part of the bonus component is discretionary and generally is determined by considering various factors, such as the assets held in the Fund and other accounts managed by a portfolio manager, business growth, teamwork, management, corporate citizenship, etc. The second part of the bonus generally is determined by the pre-tax investment performance of products, including the Fund, for which the portfolio manager is responsible (Performance-Based Bonus). Credit Suisse considers both the short-term (generally one-year) and long-term (generally three-year) performance of a portfolio manager relative to selected benchmarks in determining the portfolio manager s bonus. The following table sets forth the benchmark used over a one-year period in determining each portfolio manager s Performance-Based Bonus.

Portfolio Manager	**Benchmark**	**Peer Group**
Matthew Hickman	Chile Composite	N/A
	MSCI Latin America	Lipper Latin America Funds

A portion of the bonus may be paid in phantom shares of Credit Suisse Group stock as deferred compensation. Phantom shares are shares representing an unsecured right to receive on a particular date a specified number of registered shares subject to certain terms and conditions. A portion of the bonus will receive the notional return of the fund(s) the portfolio manager manages and a portion of the bonus will receive the notional return of a basked of other Credit Suisse funds along the product line of the portfolio manager.

Securities Ownership. As of December 31, 2008, Mr. Hickman directly owned 200 shares of the registrant and 200 shares of the registrant were held by his spouse.

Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.

None.

Item 10. Submission of Matters to a Vote of Security Holders.

There have been no material changes to the procedures by which shareholders may recommend nominees to the registrant s board of directors since the registrant last provided disclosure in response to the requirements of Item 7(d)(2)(ii)(g) of Schedule 14A in its definitive proxy statement dated March 3, 2008.

Item 11. Controls and Procedures.

(a) As of a date within 90 days from the filing date of this report, the principal executive officer and principal financial officer concluded that the registrant s disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940 (the Act)) were effective based on their evaluation of the disclosure controls and procedures required by Rule 30a-3(b) under the Act and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934.

(b) There were no changes in registrant s internal control over financial reporting (as defined in Rule 30a-3(d) under the Act) that occurred during the second fiscal quarter of the period covered by this report that have materially affected, or are reasonably likely to materially affect, the registrant s internal control over financial reporting.

Item 12. Exhibits.

(a)(1) Registrant s Code of Ethics is an exhibit to this report.

(a)(2) The certifications of the registrant as required by Rule 30a-2(a) under the Act are exhibits to this report.

(a)(3) Not applicable.

(b) The certifications of the registrant as required by Rule 30a-2(b) under the Act are an exhibit to this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE CHILE FUND, INC.

/s/ George R. Hornig

Name:	George R. Hornig
Title:	Chief Executive Officer
Date:	March 6, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ George R. Hornig

Name:	George R. Hornig
Title:	Chief Executive Officer
Date:	March 6, 2009

/s/ Michael A. Pignataro

Name:	Michael A. Pignataro
Title:	Chief Financial Officer
Date:	March 6, 2009