FLUSHING FINANCIAL CORP
Form DEF 14A
April 03, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

(Amendment No.   )

Filed by the Registrant x   Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

Flushing Financial Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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FLUSHING FINANCIAL CORPORATION

1979 Marcus Avenue, Suite E140

Lake Success, New York 11042

(718) 961-5400

April 7, 2006

Dear Stockholder:

You are cordially invited to attend the annual meeting of stockholders of Flushing Financial Corporation. The annual meeting will be held at the LaGuardia Marriott located at 102-05 Ditmars Boulevard, East Elmhurst, New York 11369, on May 16, 2006 at 2:00 p.m., New York time. The matters to be considered by stockholders at the annual meeting are described in the accompanying materials.

It is very important that you be represented at the annual meeting regardless of the number of shares you own. Whether or not you plan to attend the meeting in person, we urge you to vote as soon as possible. You may vote by marking, signing and dating your proxy card and returning it in the envelope provided. Alternatively, you may vote over the Internet or by telephone. Voting over the Internet, by telephone or by written proxy will not prevent you from voting in person, but will ensure that your vote is counted if you are unable to attend. Please review the instructions on the proxy card regarding each of these voting options.

Your continued support of and interest in Flushing Financial Corporation are sincerely appreciated.

Sincerely,

Gerard P. Tully, Sr. Chairman of the Board	John R. Buran President and Chief Executive Officer

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FLUSHING FINANCIAL CORPORATION

1979 Marcus Avenue, Suite E140

Lake Success, New York 11042

(718) 961-5400

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

DATE & TIME:	May 16, 2006 at 2:00 p.m. New York time
PLACE:	LaGuardia Marriott 102-05 Ditmars Boulevard East Elmhurst, New York 11369
ITEMS OF BUSINESS	(1) To elect four directors for a three-year term and until their successors are elected and qualified; and (2) To transact such other business as may properly come before the meeting or any adjournment thereof.
RECORD DATE:	You are entitled to vote at the annual meeting or any adjournment of that meeting only if you were a stockholder at the close of business on Friday, March 24, 2006.
VOTING BY PROXY:	Please submit a proxy as soon as possible so that your shares can be voted at the meeting in accordance with your instructions. You may submit your proxy (1) over the Internet, (2) by telephone, or (3) by mail. For specific instructions, please refer to the information in the proxy statement and the instructions on the proxy card.

BY ORDER OF THE BOARD OF DIRECTORS,

Anna M. Piacentini
Corporate Secretary

Lake Success, New York

April 7, 2006

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FLUSHING FINANCIAL CORPORATION

1979 Marcus Avenue, Suite E140

Lake Success, New York 11042

(718) 961-5400

PROXY STATEMENT

Annual Meeting of Stockholders

To be held on May 16, 2006

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INTRODUCTION

This proxy statement is furnished to holders of common stock, $.01 par value per share, of Flushing Financial Corporation (the Company), which is the sole stockholder of Flushing Savings Bank, FSB (the Bank). Proxies are being solicited on behalf of the Board of Directors of the Company (the Board of Directors) to be used at the annual meeting of stockholders to be held at the LaGuardia Marriott located at 102-05 Ditmars Boulevard, East Elmhurst, New York, 11369 at 2:00 p.m., New York time, on May 16, 2006 and at any adjournment thereof. Only holders of record of the Company s issued and outstanding common stock as of the close of business on the record date, March 24, 2006, are entitled to notice of and to vote at the annual meeting and any adjournments thereof. This proxy statement, the accompanying notice of annual meeting of stockholders, the form of proxy, and the Company s 2005 Annual Report on Form 10-K are first being mailed on or about April 7, 2006 to all persons entitled to vote at the annual meeting.

VOTING AND PROXIES

Voting Rights and Quorum Requirement

Stockholders of record as of the close of business on March 24, 2006, the record date, are entitled to one vote for each share of common stock then held. On the record date, there were 19,497,697 shares of common stock outstanding and entitled to be voted and the Company had no other class of equity securities outstanding. Holders of a majority of the outstanding shares of common stock must be present at the annual meeting, either in person or represented by proxy, to constitute a quorum for the conduct of business. In order to ensure a quorum, you are requested to vote by proxy even if you plan to attend the annual meeting in person. You can vote by completing the enclosed proxy card and returning it signed and dated in the enclosed postage-paid envelope. You can also vote over the Internet or by telephone, as described below.

Voting over the Internet or by Telephone

If your shares are registered in your name with our transfer agent, you may vote either over the Internet or by telephone. Specific instructions for voting over the Internet or by telephone are set forth on the enclosed proxy card. These procedures are designed to authenticate each stockholder s identity and to allow stockholders to vote their shares and confirm that their instructions have been properly recorded.

If your shares are registered in the name of a bank or brokerage firm, you may also be able to vote your shares over the Internet or by telephone. A large number of banks and brokerage firms are participating in online programs that allow eligible stockholders to vote over the Internet or by telephone. If your bank or brokerage firm is participating in such a program, your voting form will provide instructions. If your voting form does not contain Internet or telephone voting information, please complete and return the paper proxy card in the self-addressed, postage-paid envelope provided by your bank or brokerage firm.

Effect of Proxy

The proxy solicited by this proxy statement, if properly signed and received by the Company in time for the annual meeting, or properly transmitted by telephone or the Internet, and not revoked prior to its use, will be voted in accordance with the instructions it contains. If you return or transmit a proxy without specifying your voting instructions, the proxy will be voted FOR election of the nominees for director described herein. With respect to the transaction of such other business as may properly come before the meeting, each proxy received will be voted in accordance with the best judgment of the persons appointed as proxies. At this time, the Board of Directors knows of no such other business.

Revoking a Proxy

If you give a proxy, you may revoke it at any time before it is voted by (1) filing written notice of revocation with the Corporate Secretary of the Company (Corporate Secretary, Flushing Financial Corporation,

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1979 Marcus Avenue, Suite E140, Lake Success, New York 11042); (2) submitting a duly executed proxy bearing a later date; or (3) appearing at the annual meeting and giving the Corporate Secretary notice of your intention to vote in person.

Votes Required for Approval

Directors are elected by a plurality of the votes cast with a quorum present. This means that nominees receiving the highest number of FOR votes will be elected as directors. Consequently, shares that are not voted, either because you marked your proxy card to withhold authority for all or some of the nominees or you did not complete and return your proxy card, will have no impact on the election of directors. Abstentions are considered present for purposes of determining the presence of a quorum and will not affect the plurality vote required for the election of directors. Broker non-votes are considered present for purposes of determining the presence of a quorum, but not entitled to vote, so they will have no effect on the outcome of the proposal. A broker non-vote occurs when you fail to provide your bank or broker with voting instructions and the bank or broker does not have the discretionary authority to vote your shares on a particular proposal under the New York Stock Exchange rules. Banks and brokers have discretionary authority to vote shares held in street name with respect to the election of directors.

Cost of Solicitation of Proxies

The cost of solicitation of proxies will be borne by the Company. In addition to the solicitation of proxies by mail, Morrow & Co., Inc., a proxy soliciting firm, will assist the Company in soliciting proxies for the annual meeting and will be paid a fee of $5,000, plus reimbursement for out-of-pocket expenses. Proxies also may be solicited personally or by telephone or telecopy by directors, officers and employees of the Company or the Bank, without additional compensation to these individuals. The Company will also request persons, firms and corporations holding shares in their names, or in the name of their nominees, which are beneficially owned by others, to send proxy materials to and obtain proxies from such beneficial owners, and will reimburse such holders for reasonable expenses incurred in connection therewith.

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PROPOSAL NO. 1

ELECTION OF DIRECTORS

The Board of Directors of the Company currently consists of 12 directors divided into three classes comprised of four directors each. The directors hold office for staggered terms of three years (and until their successors are elected and qualified). One of the three classes, comprising one third of the directors, is elected each year to succeed the directors whose terms are expiring. The directors in Classes C and A are serving terms expiring at the annual meeting of stockholders in 2007 and 2008, respectively.

The directors in Class B, whose terms expire at the 2006 annual meeting, are Steven J. D Iorio, Louis C. Grassi, Franklin F. Regan, Jr. and John E. Roe, Sr. Each of Messrs. D Iorio, Grassi, Regan and Roe has been nominated by the Board of Directors, upon the recommendation of its Nominating and Governance Committee, to stand for election for a term expiring at the annual meeting of stockholders to be held in 2009. With the exception of Mr. D Iorio, who was appointed to the Board of Directors in December 2004, each of these Board nominees has been previously elected by the Company s stockholders. Each of these nominees has consented to being named in this proxy statement as a Board nominee and to serve if elected.

Unless otherwise instructed, it is the intention of the proxy holders to vote the proxies received by them in response to this solicitation FOR the election of the nominees named above as directors. If any such nominee should refuse or be unable to serve, the proxies will be voted for such person as shall be designated by the Board of Directors to replace such nominee. The Board of Directors has no reason to believe that any of the Board nominees will refuse or be unable to serve as a director if elected.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE

FOR ELECTION OF THE ABOVE NOMINEES AS DIRECTORS.

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Information About Directors

The following table sets forth certain information regarding the Board nominees and members of the Board of Directors of the Company whose terms will continue after the annual meeting.

Name	Age(1)	Position(s) with the Company	Director Since(2)	Term Expires
Gerard P. Tully, Sr.	78	Chairman of the Board	1967	2007
John R. Buran(3)	56	President, Chief Executive Officer and Director	2003	2007
Michael J. Hegarty(3)	66	Director	1987	2008
James D. Bennett	67	Director	1998	2007
Steven J. D Iorio	56	Director	2004	2009(4)
Louis C. Grassi	50	Director	1998	2009(4)
John J. McCabe	62	Director	2003	2008
Vincent F. Nicolosi	66	Director	1977	2007
Donna M. O Brien	50	Director	2004	2008
Franklin F. Regan, Jr.	76	Director	1969	2009(4)
John E. Roe, Sr.	72	Director	1968	2009(4)
Michael J. Russo	71	Director	1984	2008

(1) As of December 31, 2005.
(2) Where a director s period of service relates to a period prior to May 9, 1994, the date of the Company s incorporation, the period specified relates to the date the individual commenced service as director or trustee of the Bank or its predecessor.
(3) Mr. Hegarty retired as President and Chief Executive Officer of the Company on June 30, 2005 but continues as a director. John R. Buran succeeded him as President and Chief Executive Officer effective July 1, 2005.
(4) Subject to re-election at the annual meeting.

Set forth below is certain information with respect to the Board nominees and other directors of the Company. Unless otherwise indicated, the principal occupation listed below for each person has been his or her principal occupation for the past five years.

Board Nominees

Steven J. D Iorio is the Executive Director of Real Estate and Construction for Time Warner Inc. Mr. D Iorio has over 30 years experience in commercial real estate construction, project management, and building enhancement strategies. Mr. D Iorio has held senior management positions with National Westminster Bank, Olympia & York, and Grand Central Building, Inc.

Louis C. Grassi is Managing Partner and President of Grassi & Co., CPA s, P.C. located in Lake Success, New York, with a practice in accounting, tax and management consulting services. Mr. Grassi is also a partner and the President of Grassi Consulting and of GCM Systems. He is a licensed certified fraud examiner, an author and an editor of a national tax and accounting publication. Mr. Grassi is a member of the Board of Directors of BRT Realty Trust.

Franklin F. Regan, Jr. is of counsel with the law firm of Cullen and Dykman Bleakley Platt LLP, with a practice specializing in real estate and banking matters, including commercial, residential and multi-family real estate lending; other commercial lending; bank regulatory matters; and commercial and residential bankruptcy and foreclosure matters. Prior to July 2001, Mr. Regan maintained a general law practice in Flushing, New York.

John E. Roe, Sr. is Chairman of the Board of City Underwriting Agency, Inc., insurance brokers, located in Lake Success, New York.

Continuing Directors

John R. Buran has served as President and Chief Executive Officer of the Company and the Bank since July 2005. Prior to that, he served as Executive Vice President and Chief Operating Officer of the Company and

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the Bank from January 2001 until June 2005. Prior to joining the Company, Mr. Buran was a consultant for approximately one year. Mr. Buran was Executive Vice President of the New York Metro Division of Fleet Bank, NA from 1996 to 2000, and Senior Vice President, Division Head, Retail Services of NatWest s Consumer Banking Group from 1994 to 1996. Prior to 1994, he held several management positions at Citibank/Citicorp, most recently as Vice President, New York Investment Sales.

Michael J. Hegarty served as President and Chief Executive Officer of the Company and the Bank from October 1998 until his retirement in June 2005. He joined the Company as Executive Vice President and Corporate Secretary and the Bank as Executive Vice President and Chief Operating Officer in 1995. Prior to that, he was Vice President Finance as well as Corporate Secretary and Treasurer and a director of EDO Corporation, a manufacturer of defense systems and components. Mr. Hegarty remains a director of EDO Corporation. Mr. Hegarty also serves on the board of directors of the Asset Management Fund Large Cap Equity Institutional Fund.

John J. McCabe has served as Chief Equity Strategist of Shay Assets Management, Inc. for the past ten years and a is co-manager of each of the following funds managed by Shay Assets Management: John Hancock Large Cap Select Fund and the Asset Management Fund Large Cap Equity Institutional Fund. He has also served as Managing Director of Sterling Manhattan Corp., an investment banking firm, and spent 19 years at Bankers Trust Company serving in various capacities, including Managing Director of the Investment Management Group, Director of Investment Research and member of the Senior Investment Policy Committee. Mr. McCabe is a director of the New York Society of Security Analysts, having served twice as its President. He is a past director of the Financial Analysts Federation and a Founding Governor of the CFA Institute. He is also an Adjunct Professor of Finance at St. Francis College and serves on the board of the American Geographical Society.

Donna M. O Brien is a healthcare consultant working on projects for the National Cancer Institute. Until May 2004, she served as Executive Vice President and Chief Administrative Officer of Catholic Health Services of Long Island, an organization that includes hospitals, nursing homes, home care, hospice, services for the disabled and senior housing in Nassau and Suffolk Counties in New York. In her prior experience, she held leadership positions in the Alliance for Catholic Healthcare in New York and the M.D. Anderson Cancer Center in Houston, Texas. She is a director of the Christus Health System, a not-for-profit organization in Dallas, Texas, and has served as trustee of several other healthcare organizations. Currently, she is serving as a regional member of the New York State Commission on Healthcare Facilities for the Twenty-First Century.

Michael J. Russo is self-employed as a consulting engineer and serves as Chairman of the Board and Corporate Secretary of Fresh Meadow Mechanical Corp., a mechanical contracting firm. Mr. Russo is President and Director of Operations of Northeastern Aviation Corp., an aircraft charter and management firm, and is a partner in AMF Associates, a commercial real estate company. Mr. Russo also serves as Chairman of the Board of Trustees of Flushing Hospital Medical Center. Prior to his retirement in 2004, Mr. Russo served as Chairman of the Board of Anthony Russo, Inc., a general contracting firm, for over 10 years.

Gerard P. Tully, Sr. has served as Chairman of the Board of the Company since its formation in 1994, and as Chairman of the Board of the Bank since 1980. Mr. Tully served as Chief Executive Officer of the Bank from 1981 through 1989. Mr. Tully is an officer and a director of Van-Tulco, Inc. and Tulger Contracting Corp., construction companies, Bainbridge Avenue Corp., 1620 Ralph Avenue Corp. and Contractors Associates Inc., real estate holding companies, and Whitestone Properties Associates, Inc., a real estate management company.

James D. Bennett is of counsel with the law firm of Farrell, Fritz, P.C. in Uniondale, New York, with a practice in civil law and real estate. He also serves as Chief Executive Officer of Land Enterprises, Inc., a realty investment and management firm. Prior to July 2001, Mr. Bennett was a partner in the law firm of Bennett, Rice & Schure, LLP in Rockville Centre, New York. In the past, he has served as a Trustee of both the Long Island Power Authority and the New York State Conservation Fund Advisory Council, as Supervisor and a Councilman of the Town of Hempstead, and as a Commissioner of the New York State Public Service Commission.

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Vincent F. Nicolosi is a partner in the law firm of Nicolosi & Nicolosi in Manhasset, New York. For over 25 years, he has been engaged in the practice of law with an emphasis on civil litigation. Since December 1998, Mr. Nicolosi has served as a Commissioner of the New York State Investigation Commission. Mr. Nicolosi served as a Queens Assistant District Attorney from 1967 to 1972. From 1973 to 1980, Mr. Nicolosi was a member of the New York State Assembly, serving as Chairman of the Assembly Insurance Committee from 1977 to 1980.

Executive Officers Who Are Not Directors

The following persons currently serve as executive officers who are not directors of the Company.

Name	Age(1)	Position(s) with the Company
David W. Fry	55	Senior Vice President, Treasurer and Chief Financial Officer
Henry A. Braun	60	Senior Vice President
Robert L. Callicutt	63	Senior Vice President
Francis W. Korzekwinski	43	Senior Vice President
Anna M. Piacentini	59	Senior Vice President and Corporate Secretary

(1) As of December 31, 2005.

Set forth below is certain information with respect to the executive officers who are not directors of the Company.

David W. Fry has been a Senior Vice President and the Treasurer and Chief Financial Officer of the Company since July 2004. Mr. Fry joined the Bank in 1998 as Vice President/Controller. Prior to joining the Bank, he held senior management positions at Home Federal Savings Bank, Anchor Savings Bank, and City Federal Savings Bank. Mr. Fry is a certified public accountant.

Henry A. Braun has been a Senior Vice President of the Company since 1995. Mr. Braun joined the Bank in 1994 as Senior Vice President/Bank Operations, a position he previously held at The Greater New York Savings Bank where he was employed for five years. Prior to that, Mr. Braun was with The Williamsburgh Savings Bank for twenty years, rising from Assistant Vice President/EDP Auditor to Vice President/Auditor to Senior Vice President/Operations to Executive Vice President and Chief Operating Officer.

Robert L. Callicutt has been a Senior Vice President of the Company since 1999. Mr. Callicutt joined the Bank in 1995 as Vice President of Residential Mortgage Banking. Prior to joining the Bank, he was Senior Vice President of Mid-Island Equities Corp., a mortgage banking company, for seven years. Prior to that, he served as Vice President and Manager of Dean Witter Reynolds, a stock brokerage firm, in its mortgage whole loan trading department.

Francis W. Korzekwinski has been a Senior Vice President of the Company since 1999. Mr. Korzekwinski joined the Bank in 1993 as Assistant Vice President of Commercial Real Estate and was promoted to Vice President in 1995. He is also responsible for commercial real estate lending activity of the New York Federal Division of the Bank. Prior to joining the Bank, Mr. Korzekwinski was Vice President, Mortgage Officer at Bankers Federal Savings Bank, FSB for five years. Prior to that, he served as Vice President of Secondary Marketing for a mortgage banking company.

Anna M. Piacentini has been a Senior Vice President of the Company since 1995. In 1998, Ms. Piacentini was named Corporate Secretary of the Company. Ms. Piacentini joined the Bank in 1969 and has served in various capacities including as an Executive Assistant for Branch Operations, Assistant Secretary for Human Resources and Assistant Vice President of Human Resources. In 1984, Ms. Piacentini was named Vice President/Human Resources of the Bank and in 1994 was promoted to Senior Vice President/Human Resources of the Bank. Ms. Piacentini has served as Corporate Secretary of the Bank since 1995.

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CORPORATE GOVERNANCE

Independence of Directors

The Board of Directors has determined that seven of the twelve members of the Board are considered independent under the Nasdaq director independence standards. Under these standards, a director is not independent if he or she has certain specified relationships with the Company or any other relationship which, in the opinion of the Board, would interfere with the exercise of independent judgment as a director. Mr. Buran is not independent because he is an executive officer of the Company. Mr. Hegarty is not independent as a result of his having been an executive officer of the Company during the past three years. Mr. Tully is not deemed independent as a result of the consulting fees he receives from the Company and the Bank. Messrs. Nicolosi and Regan are not deemed independent as a result of the legal fees they receive from the Bank. In evaluating the independence of the remaining directors, the Board considered the payments described below under the headings Director Compensation Fee Arrangements and Director Compensation Related Party Transactions and determined that they did not impair independence.

Meetings and Committees of the Board of Directors

The Board of Directors meets on a monthly basis and may have additional special meetings upon the request of the Chairman of the Board, the President or a majority of directors in office at the time. During 2005, the Board of Directors held 12 regular meetings and 11 special meetings. No director attended less than 75% of the meetings of the Board of Directors and its committees on which he served. The Board of Directors has established the following committees, among others:

Compensation Committee. The Compensation Committee is composed of Messrs. Russo (Chairman), Grassi and Roe, and Ms. O Brien, all of whom are considered independent under Nasdaq corporate governance standards. This committee has primary responsibility for establishing and administering the compensation and benefit programs of the Company for its executive officers and other key personnel, administering formula awards to non-employee directors under the Company s 2005 Omnibus Incentive Plan, and recommending to the Board of Directors of awards to employees under the Company s 2005 Omnibus Incentive Plan. This committee meets on an as needed basis. During 2005, this committee met eight times. The Report of the Compensation Committee is included at page 13.

Audit Committee. The Audit Committee is composed of Messrs. Grassi (Chairman), Roe, and Russo and Ms. O Brien, all of whom are independent under Nasdaq corporate governance standards and satisfy the SEC independence requirements for audit committee members. This committee meets at least quarterly to assist the Board of Directors in meeting its oversight responsibilities. The Audit Committee has sole authority to appoint and replace the Company s independent registered public accounting firm and is directly responsible for the compensation and oversight of the work of that firm. This committee reviews the results of regulatory examinations, the financial reporting process, the systems and processes of internal control and compliance, and the audit process of the Company s independent registered public accounting firm. This committee also has the authority to engage independent counsel and other advisers. During 2005, this committee met six times. The Report of the Audit Committee is included at page 23. The Audit Committee s charter is attached hereto as Appendix A.

Nominating and Governance Committee. The Nominating and Governance Committee is composed of Messrs. Roe (Chairman), Bennett, McCabe and Russo, all of whom are considered independent under Nasdaq corporate governance standards. This committee has primary responsibility for recommending to the Board of Directors the slate of director nominees to be proposed by the Board for election by the stockholders (as well as any director nominees to be elected by the Board to fill interim vacancies). The committee also recommends the directors to be selected for membership on the various Board committees and the chairs of those committees. The committee is responsible for developing and recommending to the Board appropriate corporate governance policies and procedures and for approving proposed related party transactions involving directors or executive officers and the Company. The charter of the Nominating and Governance Committee is not available on the Company s website, but was attached as Appendix A to the Company s proxy statement for its 2004 annual meeting of stockholders. This committee held five meetings during 2005.

Other Committees. In addition to the committees described above, the Board of Directors has established an Executive Committee, an Insurance Committee, and an Investment Committee.

Bank Board and Committees. The business of the Bank is conducted at regular and special meetings of the Bank s Board of Directors (the Bank Board) and its committees. The Bank Board and the Board of Directors are identically constituted. During 2005, the Bank Board held 12 regular meetings and 11 special meetings. The Bank Board maintains executive, insurance, investment, compensation and audit committees. The membership of these committees is the same as that of the comparable committees of the Company s Board of Directors. These committees serve substantially the same functions at the Bank level as those of the Company. The Bank Board also maintains a loan committee, a compliance committee, a CRA committee and an ethics committee. No director attended less than 75% of the meetings of the Bank Board and its committees on which he served. Directors of the Bank are nominated by the Bank Board nominating committee and elected by the Company as sole stockholder of the Bank.

Director Compensation

Fee Arrangements. Directors who are not executive officers of the Company or the Bank (Outside Directors) receive an annual retainer of $30,000 from the Bank, with no additional retainer from the Company. The Chair of the Audit Committee receives an additional annual retainer of $10,000 and the Chair of the Compensation Committee receives an additional annual retainer of $5,000. Outside Directors also receive meeting fees of $1,500 for each Board or Bank Board meeting attended, $1,000 for each Audit Committee or Compensation Committee meeting attended, and $750 for each other committee meeting attended, whether or not they are members of such committee. However, where the Board of Directors and the Bank Board meet on the same day, directors receive only a single board meeting fee for such meetings. Similarly, directors receive only a single committee meeting fee where identically constituted committees of the Board of Directors and Bank Board meet on the same day.

Outside Directors who are members of the Loan Committee also receive a fee from the Bank for conducting on-site inspections of proposed real estate collateral for certain loans in excess of $1,500,000 and certain other loans in excess of $750,000. For each day that a director conducts such inspections, the director receives a fee of $400 for the first property inspected and $200 for each additional property inspected on that day. During 2005, site inspection fees of $4,400 were paid to Mr. Bennett, $10,000 to Mr. Nicolosi, $14,800 to Mr. Regan and 4,800 to Mr. D Iorio.

For the year ended December 31, 2005, the aggregate amount of retainer, meeting and site inspection fees paid by the Bank to Outside Directors was $851,250.

Related Party Transactions. Under the Bank s lending policies, residential mortgage loans are not made to directors and executive officers. There were seven loans outstanding to immediate family members of executive officers or directors with balances in excess of $60,000 at some time since the beginning of 2005. The highest aggregate balance of these loans at any time since January 1, 2005 was $1,661,300, and the aggregate balance of these loans at January 31, 2006 was $1,568,500. All such loans were made in the ordinary course of business and were fully approved in accordance with all of the Bank s credit underwriting standards. No such loans were made during 2005. The Bank believes that such loans do not involve more than the normal risk of collectability or present other unfavorable features.

Since 1981, Franklin F. Regan, Jr. (or his law firm) has had a retainer agreement with the Bank, pursuant to which he (or his law firm) is paid an annual retainer for general legal services to the Bank. Mr. Regan, currently

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of counsel with the law firm of Cullen and Dykman Bleakley Platt LLP, represents the Bank in connection with some of its mortgage foreclosure actions. In his of counsel capacity with Cullen and Dykman, Mr. Regan also represents the Bank in closings of residential and certain commercial real estate loans, the fees of which are paid by borrowers. Under an agreement between Mr. Regan and Cullen and Dykman dated July 1, 2001, Mr. Regan receives 22.5% of the fees paid by the Bank and its borrowers to Cullen and Dykman for a period of ten years, at which time the percentage payable is reduced to 12.5% for an additional ten-year period. The agreement may be terminated earlier upon either Mr. Regan s death or the Bank s failure to continue the services rendered by Cullen and Dykman. Termination generally entitles Mr. Regan or his heirs to receive a payment equal to, in the case of his death, two times the amount paid to him in the immediately preceding year (which payment is adjusted pro rata if cessation of services to the Bank occurs during the two-year period following his death) and, in the case of cessation of services to the Bank, $100,000. In this regard, the current fees paid by borrowers for loan closings are: $575 for residential loans; within the range of $975 to $1,250 for mixed-use/multi-family property transactions; and within the range of $2,000 to $8,000 for commercial real estate loans. In 2005, the Bank paid to Mr. Regan an aggregate of $27,333 as a retainer for general legal services. This amount was credited to an account of Cullen and Dykman in accordance with Mr. Regan s agreement with that firm. Also in 2005, the Bank paid to Cullen and Dykman an aggregate of $97,843 for fees for general legal services. Borrowers paid an aggregate of $1,922,316 to Cullen and Dykman in connection with loan closings over the same period. Mr. Regan s interest in all of the above payments from the Bank and its borrowers to Mr. Regan and/or Cullen and Dykman is an aggregate of $460,686. In connection with some of the foregoing transactions, Cullen and Dykman has engaged Ultimate Abstract Services, Inc., a title company fifty percent owned by Mr. Regan s son. Neither the Company nor the Bank is involved in the selection of this title company, and fees and expenses for title work are generally paid by the borrowers. Borrowers paid an aggregate of approximately $155,344 to this title company in 2005 in connection with transactions to which the Bank was a party. In addition, the Bank leases office space to Cullen and Dykman in its 159-18 Northern Boulevard building at a market rental rate, which Mr. Regan uses in his law practice. Mr. Regan is a director of the Company and the Bank. Effective February 2006, an annual retainer for the provision of general legal services to the Bank will be paid solely to Cullen and Dykman.

Effective January 1, 2006, the law firm of Nicolosi & Nicolosi, LLP, of which Vincent F. Nicolosi is a partner, was approved by the Nominating and Governance Committee of the Company to represent the Bank in connection with closings of residential and certain commercial real estate loans, the fees of which are paid by borrowers, on terms substantially the same as have applied to Mr. Regan or his law firm for substantially the same services. In 2005, however, the Bank paid no amounts to Mr. Nicolosi or his firm in this regard or with respect to any other legal services.

John J. McCabe, a director of the Company and the Bank, serves as Chief Equity Strategist of Shay Assets Management, Inc. and is a co-manager and senior vice president of each of the John Hancock Large Cap Select Fund and the Asset Management Fund Large Cap Equity Institutional Fund (the AMF Equity Fund), which are managed by Shay Assets Management. The Bank maintains investments in three funds managed by Shay Assets Management, including the AMF Equity Fund. The Bank s investment in these funds pre-dates Mr. McCabe s service as a director. The portion of the management fees paid to Shay Assets Management by these funds that are attributable to investments of the Bank totaled approximately $70,895 in 2005. Mr. McCabe receives no remuneration from the funds. In addition, from time to time the Bank executes trades using the brokerage services of Shay Assets Management. In 2005, the Bank paid fees of approximately $1,667 to Shay Assets Management in connection with the purchase of bonds. Michael J. Hegarty, the President and Chief Executive Officer of the Company and the Bank until June 2005 and currently a director of the Company and the Bank, serves as a director of the AMF Equity Fund.

Since 1996, Mr. Tully has had a consulting agreement with the Bank and the Company, which agreement currently expires in November 2006. Pursuant to this agreement, Mr. Tully, in his capacity as Chairman, consults with and advises the officers of the Bank and the Company and their respective Boards concerning certain business and financial affairs of the Bank and the Company. The consulting agreement terminates in the event

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Mr. Tully ceases to be Chairman, in which case he would be paid all compensation due to him at the time of termination, including his full monthly fee for the month in which the termination occurred without regard to the day of the month on which it occurred. In the event Mr. Tully ceases to be Chairman within three months following a Change in Control (as defined in the 1996 Restricted Stock Incentive Plan of Flushing Financial Corporation), he would be paid in one lump sum the amount of the aggregate fees that he would have earned if he had continued to serve until the end of the then current term of the agreement. During 2005, Mr. Tully received fees of approximately $160,000 pursuant to the consulting agreement.

Director Deferred Compensation Plan. The Bank has adopted an Outside Director Deferred Compensation Plan pursuant to which Outside Directors may elect to defer all or a portion of their annual retainer, meeting fees, and inspection fees. Deferred amounts are credited with earnings based on certain mutual fund investments. The deferred amounts plus earnings thereon will be paid to the director in cash after the director s termination of service, either in a lump sum or, if the director so elects, in annual installments over a period not to exceed five years. The Company has guaranteed the payment of benefits under the Outside Director Deferred Compensation Plan. A director s right to receive benefits under the plan is no greater than the right of an unsecured general creditor of the Bank or the Company. As of December 31, 2005, there were no participants in this plan.

Director Retirement Plan. The Bank has adopted an Outside Director Retirement Plan, which provides benefits to each Outside Director who served as an Outside Director for at least five years and whose years of service as an Outside Director plus age equals or exceeds 55. Benefits are also payable to an Outside Director whose status as an Outside Director terminates due to death or disability or who is an Outside Director upon a change of control of the Company or the Bank. However, no benefits will be payable to a director who becomes an Outside Director after January 1, 2004 or who is removed for cause. An eligible director will be paid an annual retirement benefit equal to $48,000 for any participant whose termination date occurs after November 22, 2005. Such benefit will be paid in equal monthly installments for the lesser of the number of months such director served as an Outside Director or 120 months. In the event of a change of control, benefits under the plan will be paid in a cash lump sum; each eligible director with at least two years of service as an Outside Director will receive the equivalent of 120 months of benefits, and each eligible director with less than two years of service will receive the equivalent of monthly benefits for the number of months he served as an Outside Director. If the Outside Director dies before receiving all benefits payable under the plan, the remaining benefits will be paid to the Outside Director s surviving spouse. The Company has guaranteed the payment of benefits under the Outside Director Retirement Plan. A director s right to receive benefits under the plan is no greater than the right of an unsecured general creditor of the Bank or the Company.

2005 Omnibus Incentive Plan. Pursuant to the Company s 2005 Omnibus Incentive Plan, which was approved at the 2005 annual meeting of stockholders, each Outside Director receives, free of payment, an annual award of 3,600 restricted stock units (RSUs), or shares of restricted stock if so determined by the Compensation Committee, as of June 1 of each year. Upon initial election or appointment to the Board or a change to Outside Director status, an Outside Director receives a pro rated portion of the annual award consisting of 300 shares of restricted stock (or RSUs if so determined by the Compensation Committee) for each full or partial month from the date of such person s election or appointment or change in status to the following June 1. Each award to an Outside Director vests with respect to one-third of the underlying shares on the June 1 following the date of grant, and an additional one-third of the underlying shares on each of the two subsequent June 1, provided the award holder is a director of the Company on each such date. In the event the Outside Director ceases to be a director of the Company before an award has fully vested, the unvested portion of the award is forfeited. Awards to Outside Directors become fully vested in advance of such schedule upon a change of control of the Company or the Bank (if the director is a member of the Board at such time) or upon termination of the director s service on the Board due to death, disability or retirement. For this purpose, retirement means a director s termination of service after five years of service as an Outside Director if the director s age plus years of service as an Outside Director equals or exceeds 55. Unless the Compensation Committee provides otherwise, dividends or dividend equivalents on these awards are paid on a current basis,

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and the awards are settled in stock. An RSU award entitles the award holder to receive one share of common stock (or the fair market value of a share in cash or other property) at a specified future time.

Indemnity Agreements. The Company and the Bank have entered into an Indemnity Agreement with each of the directors and executive officers, which agreements provide for mandatory indemnification of each director or executive officer to the full extent permitted by law for any claim arising out of such person s service to the Company or the Bank. The agreements provide for advancement of expenses and specify procedures for determining entitlement to indemnification in a particular case.

Director Nominations

In evaluating director candidates for purposes of recommending director candidates to the Board, the Nominating and Governance Committee will consider the following factors: the candidate s moral character and personal integrity; whether the candidate has expertise and experience relevant to the Company s business (including knowledge of the communities and markets served by the Bank); whether the candidate s expertise and experience complements the expertise and experience of the other directors; whether the candidate would be considered independent under the Nasdaq corporate governance standards; whether the candidate would be independent of any particular constituency and able to represent the interests of all stockholders of the Company; the congeniality of the candidate with the other directors; whether the candidate would have sufficient time available to devote to Board activities; and any other factors deemed relevant by the Committee.

The Nominating and Governance Committee will consider director candidates recommended by stockholders of the Company. Stockholders may recommend an individual for consideration by submitting to the Committee the name of the individual, his or her background (including education and employment history), a statement of the particular skills and expertise that the candidate would bring to the Board, the name, address and number of shares of the Company owned by the stockholder submitting the recommendation, any relationship or interest between such stockholder and the proposed candidate, and any additional information that would be required under applicable SEC rules to be included in the Company s proxy statement if such proposed candidate were to be nominated as a director.

Such submissions should be addressed to Flushing Financial Corporation Nominating and Governance Committee, at the Company s executive offices. In order for a candidate to be considered by the Committee for any annual meeting, the submission must be received by the Committee no later than the November 1 preceding such annual meeting.

The Nominating and Governance Committee will evaluate the biographical information and background material relating to each potential candidate and may seek additional information from the submitting stockholder, the potential candidate, and/or other sources. The Committee may hold interviews with selected candidates. Individuals recommended by stockholders will be considered under the same factors as individuals recommended by other sources.

Stockholder Communications with the Board of Directors

The Company s Board of Directors has adopted the following policy by which stockholders may communicate with the Board or with individual directors or Board committees. The communication should be in writing, addressed to the Board or applicable committee or directors, c/o Corporate Secretary, Flushing Financial Corporation, at the Company s executive offices. The Corporate Secretary will review all such correspondence received and will periodically, at least quarterly, forward to the applicable directors a summary of all such correspondence together with copies of correspondence that the Corporate Secretary believes should be seen in its entirety. Correspondence or summaries will be forwarded to the applicable directors on an expedited basis where the Corporate Secretary deems it appropriate. Communications raising concerns related to the Company s accounting, internal controls, or auditing matters will be immediately brought to the attention of the Company s

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Internal Auditor and the Chairman of the Audit Committee and will be handled in accordance with the procedures established by the Audit Committee with respect to such matters.

Directors may at any time review a log of correspondence received by the Company that is addressed to the director (or to the full Board or a Board committee on which he serves) and may request copies of any such correspondence.

The Company believes that it is important for directors to directly hear concerns expressed by stockholders. Accordingly, it is the Company s policy that Board members are expected to attend the annual meeting of stockholders absent a compelling commitment that prevents such attendance. All of the members of the Board of Directors at the time of the 2005 annual meeting attended such meeting.

Code of Business Conduct and Ethics

The Company has adopted a Code of Business Conduct and Ethics that applies to all of its directors, officers and employees. This code is publicly available on the Company s website at http://www.flushingsavings.com by following the links to investor relations and then corporate governance, and then Code of Business Conduct and Ethics. Any substantive amendments to the code and any grant of a waiver from a provision of the code requiring disclosure under applicable SEC or Nasdaq rules will be disclosed in a report on Form 8-K.

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EXECUTIVE COMPENSATION

Report of the Compensation Committee

Compensation Philosophy. The Company s executive compensation program is intended to link management s pay with the Company s annual and long-term performance. The Compensation Committee believes it is important to attract and retain highly qualified senior managers by providing compensation opportunities that are both competitive with the market for executive talent and consistent with the Company s performance. At the end of 2003, the Committee retained an independent nationally recognized compensation consulting firm to review the compensation of the Company s executive officers. The Committee considered the consultant s recommendations in its salary and bonus decisions for 2004. In May 2004, the Committee expanded the scope of the services to be provided by the consultants to include a broader assessment of the effectiveness of the Company s remuneration programs for its executive officers and recommendations in anticipation of the changes in accounting for equity compensation and in light of executive compensation developments generally. The consultants recommendations from this portion of the project were considered by the Committee in its grant of equity awards in 2004 and its recommendation for adoption of the 2005 Omnibus Incentive Plan, which was submitted to and approved by the stockholders at the 2005 annual meeting. In February 2005, the Committee requested and was presented with a series of recommendations by the consultants on the subject of compensation philosophy for both executives and directors as a foundation for making decisions with respect to the amount and approach of the various reward components. A set of recommendations from such project, together with a peer group analysis, was considered by the Committee in its salary, bonus and equity awards in 2005.

The following is a discussion of the Company s executive compensation program as in effect during 2005, including a description of the decisions and actions taken by the Committee with respect to 2005 compensation for the Chief Executive Officer.

Salary and Incentive Bonus for Executive Officers. The key factor in the Committee s salary and bonus determinations in 2005 for executive officers was a peer group analysis based on the work of the Committee s independent compensation consultants. The information relating to peer group members was sourced from their public proxy statements. For purposes of comparability, the peer group includes both local competitors and non-local financial institutions of similar size.

In determining the base salary and annual incentive bonus of executive officers, the Committee considered a variety of factors in addition to the compensation paid by peer group members, including the individual executive s level of responsibility and individual performance, and the financial and operational performance of the Company and the Bank in relation to their competitors. The most recent benchmarking analysis reviewed by the Committee indicated that salary and bonus levels of most of the Company s executive officers were generally below the median. The salary and bonus levels set by the Committee for 2005 were intended to position compensation levels at or about the median of our peer group, adjusted for the other factors noted above.

The annual incentive bonus paid to executive officers was determined by the Committee at the end of the year based on, in addition to the Company s review of comparable peer group information as described above, its assessment of the Company s and the Bank s performance during the year as well as each individual executive officer s contribution to such performance. In June 2005, the Committee approved a bonus pool of approximately 3% of pre-tax earnings and established guideline bonus amounts of 40% of salary for the Company s Chief Executive Officer and Chief Operating Officer, 30% of salary for the Company s other executive officers, and lesser amounts for other officers, but reserved the right to set bonuses at, above or below these levels. In December 2005, the Committee compared the Company s performance for the year against budgeted amounts of, among other financial measures, total assets, pre-tax income, earnings per share, and book value per share. For three of these line items, pre-tax income, earnings per share and book value per share, the Company s operating results did not achieve the budgeted amounts. The Committee noted, however, that these shortfalls were due to certain non-budgeted items, including a charge for legal fees for terminated negotiations to acquire another financial institution and the loss incurred on the securities portfolio restructuring in the fourth quarter. Similarly, earnings per share were below budget due to the suspension of the Company s stock repurchase program for most of 2005, primarily as a result of the aforementioned negotiations. The Committee concluded that, in the absence of these items, the Company s results would have approximated the budgeted financial measures.

The Committee also compared the Company s performance against its peer group and budgeted amounts in the areas of return on average assets, net interest margin, efficiency ratio and return on average equity. The Committee noted that the Company out-performed the peer group in each of these areas, except net interest margin, in which it had similar results. The Committee also noted that, but for certain non-budgeted items, the Company would have exceeded the budgeted amounts in the foregoing categories, with the exception of net interest margin. The Committee excluded the impact of those non-budgeted items and awarded bonuses to the executive officers in excess of the guideline amounts, with the amount of bonus for each executive officer also being based on evaluations of the individual performance of that officer.

Compensation of the Chief Executive Officer. In 2005, the Company and the Bank experienced a year of transition in the office of the Chief Executive Officer. On June 30, 2005, after ten years of service to the Company and the Bank, Mr. Hegarty retired from his position as President and Chief Executive Officer. The transition was a smooth one as Mr. Buran was elevated to the Chief Executive Officer role at that time. The decisions of the Compensation Committee with respect to the office of the Chief Executive Officer were made in light of this transition and consistent with the Company s approach to compensation discussed above. During 2005, Mr. Hegarty s annual rate of base salary was unchanged at $495,000 and he did not receive a bonus for the year. However, pursuant to a retirement agreement entered into with the Company and the Bank in December 2004, Mr. Hegarty received the payments and benefits he would have been entitled to receive under his Employment Agreements if the Company and/or the Bank failed to renew such agreement, including a one-time payment of $769,500. The foregoing payments were pre-existing contractual obligations to Mr. Hegarty, rather than discretionary determinations made during 2005. The payments and benefits to Mr. Hegarty in 2005 are more fully described under the heading Employment, Severance and Change of Control Arrangements Hegarty Retirement Agreement.

Mr. Buran s annual rate of base salary was increased from $300,000 to $450,000, effective July 1, 2005. His 2005 bonus of $200,000 reflects an increase of $50,000 over 2004. In addition to his salary and bonus increases, Mr. Buran received grants of 30,000 RSUs and options to purchase 70,000 shares of common stock as long-term equity compensation. All of the foregoing compensation changes, as well as other terms, were determined in accordance with Mr. Buran s promotion to Chief Executive Officer and are set forth in his new employment agreements with the Company and the Bank as approved by the Committee and more fully described under the heading Employment, Severance and Change of Control Arrangements Employment Agreements. The new compensation arrangements for Mr. Buran accompanied and recognized his assumption of additional responsibilities as Chief Executive Officer upon Mr. Hegarty s retirement, and reflect the Committee s assessment of competitive compensation for positions of comparable responsibility among similar financial institutions as well as the compensation it historically had paid to Mr. Hegarty. The Committee also considered the Company s and the Bank s overall performance and Mr. Buran s instrumental role in achieving that performance.

Long-Term Compensation. Since 2003, the Committee s policy on executive compensation has been toward reduction in the overall amount of equity compensation and the shifting of such compensation from stock options to restricted stock. In 2003, the Committee granted each of the executive officers stock options at a level of approximately 50% of their 2002 grant (measured by number of shares subject to option) and restricted stock at a level of approximately 70% of 2002 grants (measured by the dollar value of the restricted stock on the date of grant).

The Committee s 2004 grants generally continued this trend, with two exceptions. The awards to most executive officers reflected a 33-1/3% increase in the number of shares of restricted stock or RSUs granted. At the same time, the stock option grants for executive officers were reduced to slightly more than 50% of the prior

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year s grants (measured by the number of shares subject to option). In anticipation at the time of the change in accounting principles that would require the expensing of stock options beginning in 2005, the 2004 options were all scheduled to vest in December 2004 assuming continued employment to that date. This shorter than usual vesting period also influenced the reduced grant size. The two exceptions to the above pattern were Mr. Hegarty and Mr. Fry. Mr. Hegarty s awards were reduced in anticipation of his retirement. Mr. Fry received a significant increase in his awards over 2003 in recognition of his promotion to Chief Financial Officer.

The 2005 awards to most executive officers reflected about the same increase as in 2004 in the number of shares of restricted stock or RSUs granted, while the number of stock options slightly increased in comparison to grants in 2004 (measured by the number of shares subject to option). In anticipation once again of the change in accounting principles that would require the expensing of stock options beginning