FLUSHING FINANCIAL CORP
Form 10-Q
August 11, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **June 30, 2008**

Commission file number **000-24272**

FLUSHING FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

11-3209278

(I.R.S. Employer Identification No.)

1979 Marcus Avenue, Suite E140, Lake Success, New York 11042

(Address of principal executive offices)

(718) 961-5400

(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. x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
o Yes x No

The number of shares of the registrant's Common Stock outstanding as of July 31, 2008 was 21,593,302.

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

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Consolidated Statements of Financial Condition

(Dollars in thousands, except per share data)	At June 30, 2008	At December 31, 2007
	(Unaudited)	
ASSETS		
Cash and due from banks	$ 65,031	$ 36,148
Securities available for sale:		
Mortgage-backed securities ($120,677 and $133,051 at fair value as of June 30, 2008 and December 31, 2007. respectively)	394,445	362,729
Other securities ($33,499 and $30,986 at fair value as of June 30, 2008 and December 31, 2007. respectively)	75,459	77,371
Loans:		
Multi-family residential	973,087	964,455
Commercial real estate	689,520	625,843
One-to-four family mixed-use property	733,400	686,921
One-to-four family residential	235,132	161,666
Co-operative apartments	6,516	7,070
Construction	105,580	119,745
Small Business Administration	20,143	18,922
Taxi medallion	20,443	68,250
Commercial business and other	57,486	41,796
Net unamortized premiums and unearned loan fees	16,283	14,083
Allowance for loan losses	(6,934)	(6,633)
Net loans	2,850,656	2,702,118
Interest and dividends receivable	16,179	15,768
Bank premises and equipment, net	23,353	23,936
Federal Home Loan Bank of New York stock	45,119	42,669
Bank owned life insurance	53,363	52,260
Goodwill	16,127	16,127
Core deposit intangible	2,576	2,810
Other assets	30,919	22,583
Total assets	$ 3,573,227	$ 3,354,519
LIABILITIES		
Due to depositors:		
Non-interest bearing	$ 73,983	$ 69,299
Interest-bearing:		
Certificate of deposit accounts	1,265,713	1,167,399
Savings accounts	384,447	354,746
Money market accounts	304,147	340,694
NOW accounts	127,690	70,817
Total interest-bearing deposits	2,081,997	1,933,656

Mortgagors’ escrow deposits	27,669	22,492
Borrowed funds ($133,698 and $135,621 at fair value as of June 30, 2008 and December 31, 2007. respectively)	885,734	849,727
Securities sold under agreements to repurchase ($25,917 and $25,924 at fair value as of June 30, 2008 and December 31, 2007)	222,817	222,824
Other liabilities	41,466	22,867
Total liabilities	3,333,666	3,120,865
STOCKHOLDERS’ EQUITY		
Preferred stock ($0.01 par value; 5,000,000 shares authorized; none issued)	—	—
Common stock ($0.01 par value; 40,000,000 shares authorized; 21,590,197 shares and 21,321,564 shares issued at June 30, 2008 and December 31, 2007, respectively; 21,585,979 shares and 21,321,564 shares outstanding at June 30, 2008 and December 31, 2007, respectively)	216	213
Additional paid-in capital	79,546	74,861
Treasury stock (4,218 shares and none at June 30, 2008 and December 31, 2007, respectively)	(80)	—
Unearned compensation - Employee Benefit Trust	(1,704)	(2,110)
Retained earnings	169,430	161,598
Accumulated other comprehensive loss, net of taxes	(7,847)	(908)
Total stockholders’ equity	239,561	233,654
Total liabilities and stockholders’ equity	$ 3,573,227	$ 3,354,519

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

PART I – FINANCIAL INFORMATION
FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Consolidated Statements of Income and Comprehensive Income
(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
(Dollars in thousands, except per share data)	2008	2007	2008	2007
Interest and dividend income				
Interest and fees on loans	$ 47,166	$ 43,367	$ 94,477	$ 84,031
Interest and dividends on securities:				
Interest	5,081	3,820	10,036	7,746
Dividends	936	104	1,800	206
Other interest income	179	80	476	179
Total interest and dividend income	53,362	47,371	106,789	92,162
Interest expense				
Deposits	18,356	18,889	37,988	36,308
Other interest expense	12,913	10,412	25,993	20,479
Total interest expense	31,269	29,301	63,981	56,787
Net interest income	22,093	18,070	42,808	35,375
Provision for loan losses	300	—	600	—
Net interest income after provision for loan losses	21,793	18,070	42,208	35,375
Non-interest income				
Loan fee income	698	1,080	1,396	1,792
Banking services fee income	396	381	838	768
Net gain on sale of loans held for sale	—	137	31	239
Net gain on sale of loans	47	71	69	137
Net gain (loss) from fair value adjustments	(339)	(634)	(1,941)	171
Federal Home Loan Bank of New York stock dividends	854	663	1,735	1,238
Bank owned life insurance	549	424	1,103	853
Other income	536	621	3,482	1,196
Total non-interest income	2,741	2,743	6,713	6,394
Non-interest expense				
Salaries and employee benefits	6,827	6,234	13,281	12,381
Occupancy and equipment	1,585	1,608	3,221	3,233
Professional services	1,386	1,195	2,769	2,391
Data processing	928	867	1,973	1,711
Depreciation and amortization of premises and equipment	597	604	1,191	1,197

Other operating expenses	3,001	2,771	5,106	4,889
Total non-interest expense	14,324	13,279	27,541	25,802
Income before income taxes	10,210	7,534	21,380	15,967
Provision for income taxes				
Federal	2,931	2,315	6,095	4,962
State and local	780	438	1,635	838
Total taxes	3,711	2,753	7,730	5,800
Net income	$ 6,499	$ 4,781	$ 13,650	$ 10,167
Other comprehensive income, net of tax				
Unrealized holding losses arising during the period	$ (3,301)	$ (1,286)	$ (6,977)	$ (854)
Amortization of net actuarial losses	9	15	18	30
Amortization of prior service costs	3	18	7	36
Net other comprehensive loss	(3,289)	(1,253)	(6,952)	(788)
Comprehensive net income	$ 3,210	$ 3,528	$ 6,698	$ 9,379
Basic earnings per share	$ 0.33	$ 0.24	$ 0.69	$ 0.52
Diluted earnings per share	$ 0.32	$ 0.24	$ 0.68	$ 0.51
Dividends per share	$ 0.13	$ 0.12	$ 0.26	$ 0.24

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

PART I – FINANCIAL INFORMATION
FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)

(Dollars in thousands)	For the six months ended June 30, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 13,650	$ 10,167
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	600	—
Depreciation and amortization of bank premises and equipment	1,191	1,197
Origination of loans held for sale	(658)	(7,291)
Proceeds from sale of loans held for sale	686	7,558
Net gain on sale of loans held for sale	(31)	(239)
Net gain on sales of loans	(69)	(137)
Amortization of premium, net of accretion of discount	859	781
Fair value adjustment for financial assets and financial liabilities	1,941	(171)
Income from bank owned life insurance	(1,103)	(853)
Stock-based compensation expense	1,450	1,211
Deferred compensation	(508)	(430)
Amortization of core deposit intangibles	234	234
Excess tax benefits from stock-based payment arrangements	(659)	(213)
Deferred income tax (benefit) provision	(711)	190
Decrease in other liabilities	(998)	(8)
(Increase) decrease in other assets	(2,038)	542
Net cash provided by operating activities	13,836	12,538
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of bank premises and equipment	(608)	(2,959)
Net (purchases) redemptions of Federal Home Loan Bank of New York shares	(2,450)	916
Purchases of securities available for sale	(54,219)	(36,992)
Proceeds from sales and calls of securities available for sale	—	150
Proceeds from maturities and prepayments of securities available for sale	28,538	60,195
Net originations and repayment of loans	(92,629)	(222,029)
Purchases of loans	(65,253)	(9,162)
Proceeds from sale of loans	—	2,031
Proceeds from sale of delinquent loans	8,798	6,917
Net cash used in investing activities	(177,823)	(200,933)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in non-interest bearing deposits	4,684	2,523
Net increase in interest-bearing deposits	147,936	176,879

Net increase in mortgagors’ escrow deposits	5,177	6,267
Proceeds from long-term borrowings	144,923	115,138
Repayment of long-term borrowings	(107,018)	(102,915)
Purchases of treasury stock	(400)	(1,049)
Excess tax benefits from stock-based payment arrangements	659	213
Proceeds from issuance of common stock upon exercise of stock options	2,075	928
Cash dividends paid	(5,166)	(4,683)
Net cash provided by financing activities	192,870	193,301
Net increase in cash and cash equivalents	28,883	4,906
Cash and cash equivalents, beginning of period	36,148	29,251
Cash and cash equivalents, end of period	$ 65,031	$ 34,157
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Interest paid	$ 61,831	$ 55,853
Income taxes paid	9,095	6,131
Taxes paid if excess tax benefits were not tax deductible	9,754	6,344
Non-cash activities:		
Securities purchase, not yet settled	20,288	—

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

PART I – FINANCIAL INFORMATION
FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Consolidated Statement of Changes in Stockholders' Equity
(Unaudited)

(Dollars in thousands)	For the six months ended June 30, 2008
Common Stock	
Balance, beginning of period	$ 213
Issuance upon exercise of stock options (183,298 common shares)	2
Shares issued upon vesting of restricted stock unit awards (85,335 common shares)	1
Balance, end of period	$ 216
Additional Paid-In Capital	
Balance, beginning of period	$ 74,861
Award of common shares released from Employee Benefit Trust (80,717 common shares)	825
Shares issued upon vesting of restricted stock unit awards (87,825 common shares)	2,114
Issuance upon exercise of stock options (183,298 common shares)	1,440
Stock-based compensation activity, net	(353)
Stock-based income tax benefit	659
Balance, end of period	$ 79,546
Treasury Stock	
Balance, beginning of period	$ —
Issuance upon exercise of stock options (4,000 common shares)	67
Repurchase of restricted stock awards to satisfy tax obligations (21,783 common shares)	(400)
Shares issued upon vesting of restricted stock unit awards (13,565 common shares)	253
Balance, end of period	$ (80)
Unearned Compensation	
Balance, beginning of period	$ (2,110)
Release of shares from Employee Benefit Trust (119,005 common shares)	406
Balance, end of period	$ (1,704)
Retained Earnings	
Balance, beginning of period	$ 161,598
Net income	13,650
Cumulative adjustment related to the adoption of Emerging Issues Task Force Issue No. 06-4, net of taxes of approximately $449	(569)
Effects of changing the pension plan measurement date pursuant to SFAS No. 158:	
Service cost, interest cost, and expected return on plan assets for October 1 - December 31, 2007, net of taxes of approximately $13	(17)
Amortization of actuarial gains (losses) for October 1 - December 31, 2007, net of taxes of approximately $7	(9)

Amortization of prior service costs for October 1 - December 31, 2007, net of taxes of approximately $3		(4)
Cash dividends declared and paid		(5,166)
Shares issued upon vesting of restricted stock unit awards (11,075 shares)		(33)
Stock options exercised (4,000 common shares)		(20)
Balance, end of period	$	169,430
<u>Accumulated Other Comprehensive Loss</u>		
Balance, beginning of period	$	(908)
Effects of changing the pension plan measurement date pursuant to SFAS No. 158:		
Amortization of actuarial gains (losses) for October 1 - December 31, 2007, net of taxes of approximately $7		9
Amortization of prior service costs for October 1 - December 31, 2007, net of taxes of approximately $3		4
Change in net unrealized loss on securities available for sale, net of taxes of approximately $5,488		(6,977)
Amortization of actuarial gains (losses), net of taxes of approximately $14		18
Amortization of prior service costs, net of taxes of approximately $6		7
Balance, end of period	$	(7,847)
Total Stockholders' Equity	$	**239,561**

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

PART I – FINANCIAL INFORMATION
FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

The primary business of Flushing Financial Corporation (the "Holding Company") is the operation of its wholly-owned subsidiary, Flushing Savings Bank, FSB (the "Bank"). The unaudited consolidated financial statements presented in this Form 10-Q include the collective results of the Holding Company and the Bank, but reflect principally the Bank's activities.

The accompanying unaudited consolidated financial statements are prepared on the accrual basis of accounting. The information furnished in these interim statements reflects all adjustments which are, in the opinion of management, necessary for a fair statement of the results for such presented periods of Flushing Financial Corporation and Subsidiaries (the "Company"). Such adjustments are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q. All inter-company balances and transactions have been eliminated in consolidation. The results of operations in the interim statements are not necessarily indicative of the results that may be expected for the full year.

The accompanying unaudited consolidated financial statements have been prepared in conformity with the instructions to Quarterly Report on Form 10-Q and Article 10, Rule 10-01 of Regulation S-X for interim financial statements. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The unaudited consolidated interim financial information should be read in conjunction with the Company's 2007 Annual Report on Form 10-K.

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

2. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

3. Earnings Per Share

Earnings per share is computed in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share." Basic earnings per share is computed by dividing net income by the total weighted average number of common shares outstanding, including only the vested portion of restricted stock and restricted stock unit awards during each period presented. The computation of diluted earnings per share includes the additional dilutive effect of stock options outstanding and the unvested portion of restricted stock and restricted stock unit awards during the period. Common stock equivalents that are antidilutive are not included in the computation of diluted earnings per share. The numerator for calculating basic and diluted earnings per share is net income. Earnings per share have been computed based on the following:

	Three months ended June 30,		Six months ended June 30,	
(In thousands, except per share data)	2008	2007	2008	2007
Net income	$ 6,499	$ 4,781	$ 13,650	$ 10,167
Divided by:				
Weighted average common shares outstanding	19,953	19,553	19,877	19,551
Weighted average common stock equivalents	246	237	201	247
Total weighted average common shares and common stock equivalents	20,199	19,790	20,078	19,798
Basic earnings per share	$ 0.33	$ 0.24	$ 0.69	$ 0.52
Diluted earnings per share (1) (2)	$ 0.32	$ 0.24	$ 0.68	$ 0.51

Dividends per share	$ 0.13	$ 0.12	$ 0.26	$ 0.24
Dividend payout ratio	39.39%	50.00%	37.68%	46.15%

(1) For the three months ended June 30, 2008, options to purchase 113,850 shares at an average exercise price of $19.55 and unvested restricted stock and restricted stock unit awards totaling 99,322 shares at an average market price on date of grant of $19.45, were not included in the computation of diluted earnings per share because their inclusion would be antidilutive. For the three months ended June 30, 2007, options to purchase 462,325 shares at an average exercise price of $17.48 and unvested restricted stock and restricted stock unit

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awards totaling 125,461 shares at an average market price on date of grant of $17.29, were not included in the computation of diluted earnings per share because their inclusion would be antidilutive.

(2) For the six months ended June 30, 2008, options to purchase 338,025 shares, at an average exercise price of $18.36, and unvested restricted stock and restricted stock unit awards for 122,422 shares, at an average market price on the date of grant of $19.15, were not included in the computation of diluted earnings per share because their inclusion would be antidilutive. For the six months ended June 30, 2007, options to purchase 394,275 shares, at an average exercise price of $17.66, and unvested restricted stock and restricted stock unit awards for 79,901 shares, at an average market price on the date of grant of $17.76, were not included in the computation of diluted earnings per share because their inclusion would be antidilutive.

4. Stock-Based Compensation

The 2005 Omnibus Incentive Plan ("Omnibus Plan") became effective on May 17, 2005 after adoption by the Board of Directors and approval by the stockholders. The Omnibus Plan authorizes the Compensation Committee to grant a variety of equity compensation awards as well as long-term and annual cash incentive awards, all of which can be structured so as to comply with Section 162(m) of the Internal Revenue Code. On May 20, 2008 stockholders approved an amendment to the Omnibus Plan authorizing an additional 600,000 shares for the Omnibus Plan, of which 350,000 shares are available for use for full value awards and 250,000 shares are available for use for non-full value awards. These additional shares, along with shares remaining that were previously authorized by stockholders under the 1996 Restricted Stock Incentive Plan and the 1996 Stock Option Incentive Plan, are available for use as full value awards and non-full value awards under the Omnibus Plan. All grants and awards under the 1996 Restricted Stock Incentive Plan and the 1996 Stock Option Incentive Plan issued prior to the effective date of the Omnibus Plan remained outstanding after such effective date.

Under the Omnibus Plan as of June 30, 2008, there are 434,727 shares available for full value awards and 318,568 shares available for non-full value awards. To satisfy stock option exercises or fund restricted stock and restricted stock unit awards, shares are issued from treasury stock, if available, otherwise new shares are issued. The Company will maintain separate pools of available shares for full value as opposed to non-full value awards, except that shares can be moved from the non-full value pool to the full value pool on a 3-for-1 basis.

The exercise price per share of a stock option grant may not be less than the fair market value of the common stock of the Company on the date of grant, and may not be repriced without the approval of the Company's stockholders. Options, stock appreciation rights, restricted stock, restricted stock units and other stock based awards granted under the Omnibus Plan are generally subject to a minimum vesting period of three years, with stock options having a 10-year contractual term. Other awards do not have a contractual term of expiration. Restricted stock, restricted stock units and stock option awards all include participants who have reached or are close to reaching retirement eligibility, at which time such awards fully vest. These amounts are included in stock-based compensation expense. The Omnibus Plan increased the annual grants to each outside director to 3,600 restricted stock units, while eliminating grants of stock options for outside directors. Prior to the approval of the Omnibus Plan, outside directors were annually granted 1,687 restricted stock unit awards and 14,850 stock options.

Full Value Awards: The first pool is available for full value awards, such as restricted stock unit awards. The pool will be decreased by the number of shares granted as full value awards. The pool will be increased from time to time by the number of shares that are returned to or retained by the Company as a result of the cancellation, expiration, forfeiture or other termination of a full value award (under the Omnibus Plan or the 1996 Restricted Stock Incentive Plan); the settlement of such an award in cash; the delivery to the award holder of fewer shares than the number underlying the award, including shares which are withheld from full value awards; or the surrender of shares by an award holder in payment of the exercise price or taxes with respect to a full value award.

Non-Full Value Awards: The second pool is available for non-full value awards, such as stock options. The pool will be increased from time to time by the number of shares that are returned to or retained by the Company as a result of the cancellation, expiration, forfeiture or other termination of a non-full value award (under the Omnibus Plan or the 1996 Stock Option Incentive Plan). The second pool will not be replenished by shares withheld or surrendered in payment of the exercise price or taxes, retained by the Company as a result of the delivery to the award hold of fewer shares than the number underlying the award, or the settlement of the award in cash.

In accordance with SFAS No. 123R, "Share-based Payments," the Company estimates the fair value of stock options awarded on the date of grant using the Black Scholes valuation model. Under the Black Scholes valuation model,

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(Unaudited)

key assumptions are used to estimate the fair value of stock options include the exercise price of the award, the expected option term, the expected volatility of the Company's stock price, the risk-free interest rate over the options' expected term and the annual dividend yield. The Company uses the fair value of the common stock on the date of award to measure compensation cost for restricted stock and restricted stock unit awards. Compensation cost is recognized over the vesting period of the award, using the straight line method. For the three-month period ended June 30, 2008, there were 80,100 stock options and 128,070 restricted stock units granted, while for the six-month period ended June 30, 2008, there were 88,100 stock options and 128,570 restricted stock units granted. For the three and six month periods ended June 30, 2007, there were 95,200 stock options and 108,250 restricted stock units granted.

For the three months ended June 30, 2008 and 2007, the Company's net income, as reported, includes $1.1 million and $0.9 million, respectively, of stock-based compensation costs and $0.4 million and $0.3 million, respectively, of income tax benefits related to the stock-based compensations plans. For the six months ended June 30, 2008 and 2007, the Company's net income, as reported, includes $1.5 million and $1.3 million, respectively, of stock-based compensation costs and $0.5 million and $0.5 million, respectively, of income tax benefits related to the stock-based compensations plans.

The following are the significant weighted assumptions relating to the valuation of the Company's stock options granted for the periods indicated:

	For the three months ended June 30,		For the six months ended June 30,	
	2008	2007	2008	2007
Dividend yield	3.30%	3.60%	3.38%	3.60%
Expected volatility	28.91%	28.75%	28.91%	28.75%
Risk-free interest rate	3.89%	5.03%	3.82%	5.03%
Expected option life (years)	7	7	7	7

The following table summarizes the Company's full value awards at or for the six months ended June 30, 2008:

Full Value Awards	Shares	Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2007	186,566	$ 16.88
Granted	128,570	19.46
Vested	(98,074)	17.71
Forfeited	(1,740)	16.80
Non-vested at June 30, 2008	215,322	$ 18.05
Vested but unissued at June 30, 2008	73,900	$ 18.10
Vested but unissued at December 31, 2007	78,815	$ 16.70

As of June 30, 2008, there was $3.8 million of total unrecognized compensation cost related to non-vested full value awards granted under the Omnibus Plan. That cost is expected to be recognized over a weighed-average period of 3.5 years. The total fair value of awards vested during the three months ended June 30, 2008 and 2007 was $1.9 million and $1.4 million respectively, with the six months ended June 30, 2008 and 2007 at $1.9 million and $1.5 million, respectively. The vested but unissued full value awards were made to employees and directors eligible for retirement. According to the terms of the Omnibus Plan, these employees and directors have no risk of forfeiture. These shares will be issued at the original contractual vesting dates.

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

The following table summarizes certain information regarding the non-full value awards, all of which have been granted as stock options, at or for the six months ended of June 30, 2008:

Non-Full Value Awards	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value ($000) *
Outstanding at December 31, 2007	1,563,056	$ 13.45		
Granted	88,100	18.98		
Exercised	(187,298)	11.08		
Forfeited	(3,480)	18.08		
Outstanding at June 30, 2008	1,460,378	$ 14.07	5.7 years	$ 7,193
Exercisable shares at June 30, 2008	1,210,903	$ 13.33	5.1 years	$ 6,823
Vested but unexercisable shares at June 30, 2008	6,390	$ 17.15	8.9 years	$ 12

* The intrinsic value of a stock option is the amount by which the market value of the underlying stock on June 30, 2008 exceeds the exercise price of the option.

As of June 30, 2008, there was $1.0 million of total unrecognized compensation cost related to unvested non-full value awards granted under the Omnibus Plan. That cost is expected to be recognized over a weighed-average period of 3.8 years. The vested but unexercisable non-full value awards were made to employees and directors eligible for retirement. According to the terms of the Omnibus Plan, these employees and directors have no risk of forfeiture. These shares will be exercisable at the original contractual vesting dates.

Cash proceeds, fair value received, tax benefits and intrinsic value related to total stock options exercised and the weighted average grant date fair value for options granted during the three and six months ended June 30, 2008 and 2007 are provided in the following table:

	For the three months ended June 30,		For the six months ended June 30,	
(In thousands except grant date fair value)	2008	2007	2008	2007
Proceeds from stock options exercised	$ 1,925	$ 787	$ 2,075	$ 928
Tax benefit related to stock options exercised	526	192	555	206
Intrinsic value of stock options exercised	1,391	468	1,460	524
Grant date fair value at weighted average	4.79	4.30	4.66	4.30

Phantom Stock Plan: In addition, the Company maintains a non-qualified phantom stock plan as a supplement to its profit sharing plan for officers who have achieved the level of Vice President and above and completed one year of service. Awards are made under this plan on certain compensation not eligible for awards made under the profit sharing plan, due to the terms of the profit sharing plan and the Internal Revenue Code. Employees receive awards under this plan proportionate to the amount they would have received under the profit sharing plan, but for limits imposed by the profit sharing plan and the Internal Revenue Code. The awards are made as cash awards, and then converted to common stock equivalents (phantom shares) at the then current market value of the Company's common stock. Dividends are credited to each employee's account in the form of additional phantom shares each time the Company pays a dividend on its common stock. In the event of a change of control (as defined in this plan), an employee's interest is converted to a fixed dollar amount and deemed to be invested in the same manner as his interest in the Bank's non-qualified deferred compensation plan. Employees vest under this plan 20% per year for 5 years. Employees also become 100% vested upon a change of control. Employees receive their vested interest in this plan in the form of a cash lump sum payment or installments, as elected by the employee, after termination of employment. The Company adjusts its liability under this plan to the fair value of the shares at the end of each period.

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

The following table summarizes the Company's Phantom Stock Plan at or for the six months ended June 30, 2008:

Phantom Stock Plan	Shares	Fair Value
Outstanding at December 31, 2007	14,046	$ 16.05
Granted	2,813	13.84
Forfeited	(8)	19.74
Distributions	(948)	14.98
Outstanding at June 30, 2008	15,903	$ 18.95
Vested at June 30, 2008	15,590	$ 18.95

The Company recorded stock-based compensation expense (benefit) for the phantom stock plan of $24,000 and $(1,000) for the three months ended June 30, 2008 and 2007 respectively. The total fair value of the distributions from the phantom stock plan during the three months ended June 30, 2008 and 2007 were $3,000 and $6,000, respectively.

For the six months ended June 30, 2008 and 2007, the Company recorded stock-based compensation expense (benefit) for the phantom stock plan of $55,000 and $(11,000), respectively. The total fair value of the distributions from the phantom stock plan during the six months ended June 30, 2008 and 2007 were $14,000 and $24,000, respectively.

5. Pension and Other Postretirement Benefit Plans

The following table sets forth information regarding the components of net expense for the pension and other postretirement benefit plans.

	Three months ended June 30,	Six months ended June 30,