FLUSHING FINANCIAL CORP
Form 10-Q
August 09, 2010

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, 2010

Commission file number 001-33013

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. xYes oNo

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). oYes oNo

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 30, 2010 was 31,237,814

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

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FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Consolidated Statements of Financial Condition

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	June 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Cash and due from banks	$ 28,096	$ 28,426
Securities available for sale:		
Mortgage-backed securities ($69,801 and $80,299 at fair value pursuant to the fair value option at June 30, 2010 and December 31, 2009, respectively)	693,863	648,443
Other securities ($16,466 and $17,229 at fair value pursuant to the fair value option at June 30, 2010 and December 31, 2009, respectively)	53,447	35,361
Loans:		
Multi-family residential	1,214,834	1,158,700
Commercial real estate	682,467	686,210
One-to-four family mixed-use property	737,179	744,560
One-to-four family residential	251,843	249,920
Co-operative apartments	6,483	6,553
Construction	82,847	97,270
Small business administration	18,092	17,496
Taxi medallion	93,386	61,424
Commercial business and other	184,208	181,240
Net unamortized premiums and unearned loan fees	17,003	17,110
Allowance for loan losses	(25,910)	(20,324)
Net loans	3,262,432	3,200,159
Interest and dividends receivable	20,050	19,116
Bank premises and equipment, net	22,142	22,830
Federal Home Loan Bank of New York stock	41,605	45,968
Bank owned life insurance	70,569	69,231
Goodwill	16,127	16,127
Core deposit intangible	1,639	1,874
Other assets	42,217	55,711
Total assets	$ 4,252,187	$ 4,143,246
LIABILITIES		
Due to depositors:		
Non-interest bearing	$ 92,171	$ 91,376
Interest-bearing:		
Certificate of deposit accounts	1,312,742	1,230,511
Savings accounts	415,843	426,821
Money market accounts	392,047	414,457
NOW accounts	660,600	503,159
Total interest-bearing deposits	2,781,232	2,574,948
Mortgagors' escrow deposits	32,327	26,791
Borrowed funds ($62,980 and $106,167 at fair value pursuant to the fair value option at June 30, 2010 and December 31, 2009, respectively)	765,640	873,345
Securities sold under agreements to repurchase	176,000	186,900

Other liabilities	25,200	29,742
Total liabilities	3,872,570	3,783,102
STOCKHOLDERS' EQUITY		
Preferred stock ($0.01 par value; 5,000,000 shares authorized; None issued)	-	-
Common stock ($0.01 par value; 100,000,000 shares authorized; 21,801,049shares and 31,131,059 shares issued at June 30, 2010 and December 31,2009, respectively; 21,796,604 shares and 31,127,664 shares outstanding at June 30, 2010 and December 31, 2009, respectively)	312	311
Additional paid-in capital	188,223	185,842
Treasury stock (None and 3,395 shares at June 30, 2010 and December 31, 2009, respectively)	-	(36)
Unearned compensation	(247)	(575)
Retained earnings	188,847	181,181
Accumulated other comprehensive income (loss), net of taxes	2,482	(6,579)
Total stockholders' equity	379,617	360,144
Total liabilities and stockholders' equity	$ 4,252,187	$ 4,143,246

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

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

	For the three months ended June 30,		For the six months ended June 30,	
(Dollars in thousands, except per share data)	2010	2009	2010	2009
Interest and dividend income				
Interest and fees on loans	$48,993	$48,851	$98,677	$96,227
Interest and dividends on securities:				
Interest	7,734	8,972	15,645	18,309
Dividends	203	366	403	778
Other interest income	9	14	22	57
Total interest and dividend income	56,939	58,203	114,747	115,371
Interest expense				
Deposits	13,809	16,929	27,326	35,756
Other interest expense	9,690	12,353	20,476	24,638
Total interest expense	23,499	29,282	47,802	60,394
Net interest income	33,440	28,921	66,945	54,977
Provision for loan losses	5,000	5,000	10,000	9,500
Net interest income after provision for loan losses	28,440	23,921	56,945	45,477
Non-interest income				
Other-than-temporary impairment ("OTTI") charge	(2,709)	(9,637)	(2,709)	(9,637)
Less: Non-credit portion of OTTI charge recorded in Other Comprehensive Income, before taxes	1,721	8,497	1,721	8,497
Net OTTI charge recognized in earnings	(988)	(1,140)	(988)	(1,140)
Loan fee income	483	513	850	930
Banking services fee income	431	421	913	867
Net gain on sale of loans	18	-	23	-
Net gain on sale of securities	23	23	23	23
Net gain (loss) from fair value adjustments	(31)	703	(134)	3,052
Federal Home Loan Bank of New York stock dividends	453	610	1,064	956
Bank owned life insurance	693	604	1,338	1,203
Other income	636	627	1,206	1,150
Total non-interest income	1,718	2,361	4,295	7,041
Non-interest expense				
Salaries and employee benefits	8,576	7,396	17,372	14,867
Occupancy and equipment	1,716	1,624	3,465	3,398
Professional services	1,760	1,547	3,524	3,202
FDIC deposit insurance	1,249	3,220	2,523	4,197
Data processing	1,090	1,083	2,168	2,172
Depreciation and amortization of premises and equipment	723	682	1,402	1,304
Other operating expenses	2,496	2,170	5,092	4,574
Total non-interest expense	17,610	17,722	35,546	33,714

Income before income taxes	12,548	8,560	25,694	18,804
Provision for income taxes				
Federal	3,751	1,203	7,700	4,298
State and local	1,124	2,195	2,336	3,035
Total taxes	4,875	3,398	10,036	7,333
Net income	$7,673	$5,162	$15,658	$11,471
Preferred dividends and amortization of issuance costs	$-	$951	$-	$1,903
Net income available to common shareholders	$7,673	$4,211	$15,658	$9,568
Basic earnings per common share	$0.25	$0.20	$0.52	$0.46
Diluted earnings per common share	$0.25	$0.20	$0.52	$0.46
Dividends per common share	$0.13	$0.13	$0.26	$0.26

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

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

	For the six months ended June 30,	
(Dollars in thousands)	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$15,658	$11,471
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	10,000	9,500
Depreciation and amortization of bank premises and equipment	1,402	1,304
Net gain on sales of loans (including delinquent loans)	(23)	-
Net gain on sale of securities	(23)	(23)
Amortization of premium, net of accretion of discount	2,415	2,030
Net loss (gain) from fair value adjustments	134	(3,052)
OTTI charge recognized in earnings	988	1,140
Income from bank owned life insurance	(1,338)	(1,203)
Stock-based compensation expense	1,397	1,203
Deferred compensation	74	(28)
Amortization of core deposit intangibles	235	234
Excess tax expense (benefits) from stock-based payment arrangements	35	202
Deferred income tax (benefit) provision	(1,791)	9,866
(Decrease) increase in other liabilities	(3,811)	1,234
Decrease (increase) in other assets	3,820	(11,654)
Net cash provided by operating activities	29,172	22,224
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of bank premises and equipment	(714)	(1,349)
Net redemptions of Federal Home Loan Bank of New York shares	4,363	2,686
Purchases of securities available for sale	(157,271)	(102,807)
Proceeds from sales and calls of securities available for sale	14,827	13,956
Proceeds from maturities and prepayments of securities available for sale	94,408	107,916
Net originations and repayment of loans	(71,708)	(101,163)
Purchases of loans	(6,960)	(35,422)
Proceeds from sale of real estate owned	646	-
Proceeds from sale of delinquent loans	4,302	1,926
Net cash used in investing activities	(118,107)	(114,257)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in non-interest bearing deposits	795	17,401
Net increase in interest-bearing deposits	205,731	196,099
Net increase (decrease) in mortgagors' escrow deposits	5,536	(1,786)
Net repayments of short-term borrowed funds	(14,500)	(28,300)
Proceeds from long-term borrowings	30,000	69,911
Repayment of long-term borrowings	(130,919)	(140,017)
Purchases of treasury stock	(303)	(231)
Excess tax benefits from stock-based payment arrangements	(35)	(202)
Proceeds from issuance of common stock upon exercise of stock options	192	617

Cash dividends paid	(7,892)	(6,809)
Net cash provided by financing activities	88,605	106,683
Net (decrease) increase in cash and cash equivalents	(330)	14,650
Cash and cash equivalents, beginning of period	28,426	30,404
Cash and cash equivalents, end of period	$28,096	$45,054
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Interest paid	$47,927	$60,956
Income taxes paid	14,166	9,590
Taxes paid if excess tax benefits were not tax deductible	14,131	9,388
Non-cash activities:		
Securities sold, not yet settled	-	148
Loans transferred to real estate owned	3,390	411
Loans provided for the sale of real estate owned	1,969	-

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

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

	For the six months ended June 30,	
(Dollars in thousands)	2010	2009
Preferred Stock		
Balance, beginning of period	$ -	$ 1
No activity	-	-
Balance, end of period	$ -	$ 1
Common Stock		
Balance, beginning of period	$ 311	$ 216
Issuance upon exercise of stock options (18,982 and 96,742 common shares for the six months ended June 30, 2010 and 2009, respectively)	-	1
Shares issued upon vesting of restricted stock unit awards (87,621 and 78,598 common shares for the six months ended June 30, 2010 and 2009, respectively)	1	1
Balance, end of period	$ 312	$ 218
Additional Paid-In Capital		
Balance, beginning of period	$ 185,842	$ 150,662
Additional preferred stock issuance costs	-	(144)
Amortization of preferred stock issuance costs	-	152
Award of common shares released from Employee Benefit Trust (126,947 and 161,999common shares for the six months ended June 30, 2010 and 2009, respectively)	1,100	827
Shares issued upon vesting of restricted stock unit awards (102,864 and 95,534 common shares for the six months ended June 30, 2010 and 2009, respectively)	1,391	1,511
Issuance upon exercise of stock options (18,982 and 96,742 common shares for the six months ended June 30, 2010 and 2009, respectively)	208	669
Stock-based compensation activity, net	(283)	(466)
Stock-based income tax benefit (expense)	(35)	(202)
Balance, end of period	$ 188,223	$ 153,009
Treasury Stock		
Balance, beginning of period	$ (36)	$ -
Shares issued upon vesting of restricted stock unit awards (18,538 and 16,936 common shares for the six months ended June 30, 2010 and 2009, respectively)	237	177
Issuance upon exercise of stock options (37,218 and 25,558 common shares for the six months ended June 30, 2010 and 2009, respectively)	514	258
Repurchase of shares to satisfy tax obligations (26,350 and 22,091common shares for the six months ended June 30, 2010 and 2009, respectively)	(345)	(231)
Purchase of shares to pay for option exercise (26,011 and 24,848 common shares for the six months ended June 30, 2010)	(370)	(252)
Balance, end of period	$ -	$ (48)

Unearned Compensation		
Balance, beginning of period	$ (575)	$ (1,300)
Release of shares from the Employee Benefit Trust (96,130 and 106,479 common shares for the six months ended June 30, 2010 and 2009, respectively)	328	365
Balance, end of period	$ (247)	$ (935)

Continued

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

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Consolidated Statements of Changes in Stockholders' Equity and Consolidated Statements of Comprehensive Income (continued)
(Unaudited)

(Dollars in thousands)	For the six months ended June 30, 2010	2009
Retained Earnings		
Balance, beginning of period	$ 181,181	$ 172,216
Net income	15,658	11,471
Cash dividends declared and paid on common shares ($0.26 per common share for the six months ended June 30, 2010 and 2009, respectively)	(7,892)	(5,388)
Cash dividends declared and paid on preferred shares (5.00% cumulative preferred dividends for the six months ended June 30, 2009)	-	(1,421)
Issuance upon exercise of stock options (37,218 and 25,558 common shares for the six months ended June 30, 2010 and 2009, respectively)	(92)	(52)
Shares issued upon vesting of restricted stock unit awards (3,295 common shares for the six months ended June 30, 2010)	(8)	-
Amortization of preferred stock issuance costs	-	(152)
Balance, end of period	$ 188,847	$ 176,674
Accumulated Other Comprehensive Income (Loss)		
Balance, beginning of period	$ (6,579)	$ (20,303)
Change in net unrealized gain (loss) on securities available for sale, net of taxes of approximately ($6,743) and ($2,728) for the six months ended June 30, 2010and 2009, respectively	8,450	2,715
Amortization of actuarial losses, net of taxes of approximately ($68) and ($68)for the six months ended June 30, 2010 and 2009, respectively	85	85
Amortization of prior service (credits) costs, net of taxes of approximately $8 and ($10)for the six months ended June 30, 2010 and 2009, respectively	(10)	13
OTTI charges included in income, net of taxes of approximately ($439) and ($507) for the six months ended June 30, 2010 and 2009, respectively)	549	633
Reclassification adjustment for gains included in net income, net of taxes of approximately $10 for each of the six month periods ended June 30, 2010 and 2009)	(13)	(13)
Balance, end of period	$ 2,482	$ (16,870)
Total Stockholders' Equity	$ 379,617	$ 312,049

	For the three months ended June 30, 2010	2009	For the six months ended June 30, 2010	2009
Comprehensive Income				
Net income	$7,673	$5,162	$15,658	$11,471
Other comprehensive income, net of tax				
Amortization of actuarial losses	43	43	85	85

Amortization of prior service (credits) costs	(5)	6	(10)	13
OTTI charges included in income	549	633	549	633
Unrealized gains (losses) on securities	5,951	(354)	8,437	2,702
Comprehensive income	$14,211	$5,490	$24,719	$14,904

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

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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 "Savings Bank"). The unaudited consolidated financial statements presented in this Quarterly Report on Form 10-Q ("Quarterly Report") include the collective results of the Holding Company and the Savings Bank on a consolidated basis.

The accompanying unaudited consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"). The information furnished in these interim statements reflects all adjustments which are, in the opinion of management, necessary for the fair presentation of the financial statements of Flushing Financial Corporation and its consolidated subsidiaries (the "Company"), for the periods presented. Such adjustments are of a normal recurring nature, unless otherwise disclosed in this Quarterly Report. 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. Additionally, the Company elected to reclassify owner-occupied commercial loans that were originated by the Business Banking Department prior to January 1, 2010, from commercial real estate loans to commercial business loans. All loan originations of this type from January 1, 2010 forward have been and will be reported as commercial business loans. These loans are underwritten using the same underwriting standards used to originate unsecured business loans, with the mortgage obtained as additional collateral. Based upon the underwriting standards used to originate the loans, it is more appropriate to report the loans as commercial business loans. Prior period amounts have been adjusted to reflect this change.

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 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 Annual Report on Form 10-K for the year ended December 31, 2009.

The Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") became effective for financial statements issued for interim and annual periods ending after September 15, 2009. The ASC became FASB's officially recognized source of authoritative GAAP applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants ("AICPA"), Emerging Issues Task Force ("EITF") and related literature. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative. All references to accounting standards in this Quarterly Report refer to the relevant ASC Topic

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 disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates.

3. Earnings Per Share

Earnings per share are computed in accordance with ASC Topic 260 "Earnings Per Share," which provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and as such should be included in the calculation of earnings per share. Basic earnings per common share is computed by dividing net income available to common shareholders by the total weighted average number of common shares outstanding, which includes unvested participating securities. The Company's unvested restricted stock and restricted stock unit awards are considered participating securities. Therefore, weighted average common shares outstanding used for computing basic earnings per common share includes common shares outstanding plus unvested restricted stock and restricted stock unit awards. The computation of diluted earnings per share includes the additional dilutive effect of stock options outstanding during the period. Common stock equivalents that are anti-dilutive are not included in the computation of diluted earnings per common share. The numerator for calculating basic and diluted earnings per common share is net income available to common shareholders.

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Notes to Consolidated Financial Statements
(Unaudited)

Earnings per common share have been computed based on the following:

	For the three months ended June 30,		For the six months ended June 30,	
	2010	2009	2010	2009
	(In thousands, except per share data)			
Net income, as reported	$7,673	$5,162	$15,658	$11,471
Preferred dividends and amortization of issuance costs	-	(951)	-	(1,903)
Net income available to common shareholders	$7,673	$4,211	$15,658	$9,568
Divided by:				
Weighted average common shares outstanding	30,352	20,718	30,305	20,654
Weighted average common stock equivalents	47	-	36	4
Total weighted average common shares outstanding and common stock equivalents	30,399	20,718	30,341	20,658
Basic earnings per common share	$0.25	$0.20	$0.52	$0.46
Diluted earnings per common share (1)	$0.25	$0.20	$0.52	$0.46
Dividend payout ratio	52.0%	65.0%	50.0%	56.5%

(1)For the three and six months ended June 30, 2010, options to purchase 722,530 shares at an average exercise price of $16.71 were not included in the computation of diluted earnings per common share since they were anti-dilutive. For the three and six months ended June 30, 2009, a warrant to purchase 751,611 shares at an exercise price of $13.97 and options to purchase 1,422,673 shares at an average exercise price of $14.31 were not included in the computation of diluted earnings per common share since they were anti-dilutive.

4. Debt and Equity Securities

Investments in equity securities that have readily determinable fair values and all investments in debt securities are classified in one of the following three categories and accounted for accordingly: (1) trading securities, (2) securities available for sale and (3) securities held-to-maturity.

The Company did not hold any trading securities or securities held-to-maturity during the three- and six-month periods ended June 30, 2010 and 2009. Securities available for sale are recorded at fair value.

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PART I – FINANCIAL INFORMATION
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(Unaudited)

The amortized cost and fair value of the Company's securities classified as available for sale at June 30, 2010 are as follows:

	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
		(In thousands)		
U.S. government agencies	$22,894	$23,050	$156	$-
Other	27,335	24,327	4	(3,012)
Mutual funds	6,070	6,070	-	-
Total other securities	56,299	53,447	160	(3,012)
REMIC and CMO	445,979	449,450	13,985	(10,514)
GNMA	88,459	93,887	5,428	-
FNMA	118,694	123,622	4,928	-
FHLMC	26,209	26,904	695	-
Total mortgage-backed securities	679,341	693,863	25,036	(10,514)
Total securities available for sale	$735,640	$747,310	$25,196	$(13,526)

Mortgage-backed securities shown in the table above include one private issued collateralized mortgage obligation ("CMO") that is collateralized by commercial real estate mortgages with an amortized cost and market value of $13.9 million and $14.3 million, respectively, at June 30, 2010. The remaining mortgage-backed securities are backed by one-to-four family residential mortgage loans.

The following table shows the Company's available for sale securities with gross unrealized losses and their fair value, aggregated by category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2010:

	Total		Less than 12 months		12 months or more	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
Other	$7,050	$(3,012)	$-	$-	$7,050	$(3,012)
Total other securities	7,050	(3,012)	-	-	7,050	(3,012)
REMIC and CMO	100,613	(10,514)	48,249	(655)	52,364	(9,859)
Total mortgage-backed securities	100,613	(10,514)	48,249	(655)	52,364	(9,859)
Total securities available for sale	$107,663	$(13,526)	$48,249	$(655)	$59,414	$(12,871)

The Company conducted a review of each investment that had an unrealized loss at June 30, 2010. An unrealized loss exists when the current fair value of an investment is less than its amortized cost basis. Unrealized losses on available for sale securities that are deemed to be temporary are recorded, net of tax, in accumulated other comprehensive income ("AOCI") within Stockholders' Equity. Unrealized losses that are considered to be other-than-temporary are split between credit related and noncredit related impairments, with the credit related impairment being recorded as a charge against earnings in the Consolidated Statements of Income and the noncredit related impairment being recorded in AOCI, net of tax.

The Company evaluates its trust preferred securities using an impairment model through an independent third party. This review includes evaluating the financial condition of each counterparty. The Company evaluates its mortgage-backed securities by reviewing the characteristics of the securities, including delinquency and foreclosure levels, projected losses at various loss severity levels and credit enhancement and coverage. When an other-than-temporary impairment ("OTTI") is identified, the portion of the impairment that is credit related is determined by management by using the following methods: (1) for trust preferred securities, the credit related impairment is determined by using a discounted cash flow model from an independent third party, with the difference between the present value of the projected cash flows and the amortized cost basis of the security recorded as a credit related loss against earnings; and (2) for mortgage-backed securities, credit related impairment is determined for each security estimating

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FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

losses based on a set of assumptions, which includes delinquency and foreclosure levels, projected losses at various loss severity levels, and credit enhancement and coverage, and recording those estimated losses as a credit related loss against earnings.

Other Securities:
The unrealized losses in Other securities at June 30, 2010 were caused by market interest volatility, a significant widening of credit spreads across markets for these securities, and illiquidity and uncertainty in the financial markets. These securities consist of two single issuer trust preferred securities and two pooled trust preferred securities. These securities are currently rated below investment grade. The pooled trust preferred securities do not have collateral that is subordinate to the classes we own, and therefore there are no subordinate classes to absorb any losses. As noted above, the Company evaluates these securities using an impairment model, through an independent third party, that is applied to debt securities. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than amortized cost, (2) the current interest rate environment, (3) the financial condition and near-term prospects of the issuer, if applicable, and (4) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Additionally, management reviews the financial condition of each counterparty. One of the pooled trust preferred securities is over 90 days past due and the Company has stopped accruing interest. The remaining pooled trust preferred securities as well as the two single issuer trust preferred securities are performing according to their terms. Based on these reviews, an OTTI charge was recorded on one of the pooled trust preferred securities of $2.7 million before tax, of which $1.0 million was charged against earnings in the Consolidated Statements of Income and $1.7 million before tax ($1.0 million after-tax) was recorded in AOCI. The Company previously recorded credit related OTTI charges on the two pooled trust preferred securities during the year ended December 31, 2009.

The Company also owns a pooled trust preferred security that is carried under the fair value option, where the unrealized losses are included in the Consolidated Statements of Income. This security is over 90 days past due and the Company has stopped accruing interest.

The portion of the above mentioned OTTI that was related to credit losses was calculated using a discounted cash flow model. Significant assumptions used to calculate the credit related impairment were (1) all amounts currently deferring interest, except for one underlying counterparty for which it was assumed there will be a 60% recovery, will default with no recovery, (2) additional defaults of 1.2% will occur every three years with no recoveries (which results in additional defaults totaling 8.8% of the current outstanding paying collateral), (3) no issues will prepay, (4) senior classes will not call the debt on their portions, (5) use of the forward LIBOR curve, and (6) the discounting of future cash flows at 2.15%, the current coupon rate of the security.

It is not anticipated at this time that the two single issuer trust preferred securities and the one pooled trust preferred security for which an OTTI charge was not recorded during the six months ended June 30, 2010, would be settled at a price that is less than the amortized cost of the Company’s investment. Each of these securities is performing according to its terms; except for the pooled trust preferred security as discussed above, and, in the opinion of management based on the review performed at June 30, 2010, will continue to perform according to its terms. The Company does not have the intent to sell these securities and does not anticipate that these securities will be required to be sold before recovery of the full current amortized cost of the Company’s investment at June 30, 2010. Therefore, the Company did not consider the two single issuer trust preferred securities and the one pooled trust preferred security to be other-than-temporarily impaired at June 30, 2010.

REMIC and CMO:

The unrealized losses in Real Estate Mortgage Investment Conduit ("REMIC") REMIC and CMO securities at June 30, 2010 consist of two issues from Federal Home Loan Mortgage Corporation ("FHLMC"), six issues from Federal National Mortgage Association ("FNMA"), two issues from Government National Mortgage Association ("GNMA") and 10 private issues.

The unrealized losses on the REMIC and CMO securities issued by FHLMC, FNMA and GNMA were caused by movements in interest rates. It is not anticipated that these securities would be settled at a price that is less than the amortized cost of the Company's investment. Each of these securities is performing according to its terms, and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell these securities and does not anticipate that these securities will be required to be sold before recovery of full principal and interest due, which may be at maturity. Therefore, the Company did not consider these investments to be other-than-temporarily impaired at June 30, 2010.

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The unrealized losses on REMIC and CMO securities issued by private issuers were caused by movements in interest rates, a significant widening of credit spreads across markets for these securities, and illiquidity and uncertainty in the financial markets. Each of these securities has some level of credit enhancements, and none are collateralized by sub-prime loans. Currently, nine of these securities are performing according to their terms, with one security, for which an OTTI charge was previously recorded, remitting less than the full principal amount due during the six months ended June 30, 2010. The principal loss for this one security totaled $390,000 for the six months ended June 30, 2010. This loss was anticipated in the previously recorded credit related OTTI charge for the security.

It is not anticipated at this time that the 10 private issued securities would be settled at a price that is less than the current amortized cost of the Company's investment at June 30, 2010. Each of these securities is performing according to its terms, except for the one security discussed above, and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell these securities and does not anticipate that these securities will be required to be sold before recovery of full current amortized cost of the Company's investment at June 30, 2010, which may be at maturity. Therefore, the Company did not consider these investments to be other-than-temporarily impaired at June 30, 2010.

The Company has previously recorded OTTI charges in the Consolidated Statements of Income on four private issued CMOs and two pooled trust preferred securities for which a portion of the OTTI is currently recorded in AOCI. The following table details the total impairment on debt securities, as of June 30, 2010, for which the Company has previously recorded a credit related OTTI charge in the Consolidated Statements of Income:

(in thousands)	Amortized Cost	Fair Value	Gross Unrealized Losses Recorded In AOCI	Cumulative Credit OTTI Losses
Private issued CMO's	$35,730	$28,537	$7,193	$2,754
Trust preferred securities	9,262	6,349	2,913	3,738
Total	$44,992	$34,886	$10,106	$6,492

The following table represents a rollforward of the activity related to the credit loss component recognized in earnings on debt securities held by the Company for which a portion of OTTI was recognized in AOCI for the period indicated:

(in thousands)	For the six months ended June 30, 2010
Beginning balance	$ 5,894
Pass through of actual losses	(390)
OTTI charges due to credit loss recorded in earnings	988
Securities sold during the period	-

Securities where there is an intent to sell or requirement to sell