FLUSHING FINANCIAL CORP
Form 10-Q
November 09, 2009

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 September 30, 2009

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. T Yes o No

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). o 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 T |
| 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 T No

The number of shares of the registrant's Common Stock outstanding as of October 30, 2009 was 31,126,764

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

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FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Consolidated Statements of Financial Condition

ITEM 1.

| | September 30, 2009 (Unaudited) | December 31, 2008 |
|---|---|---|
| ASSETS | | |
| Cash and due from banks | $124,635 | $30,404 |
| Securities available for sale: | | |
| Mortgage-backed securities ($86,122 and $110,833 at fair value pursuant to the fair value option at September 30, 2009 and December 31, 2008, respectively) | 647,747 | 674,764 |
| Other securities ($17,438 and $28,688 at fair value pursuant to the fair value option at September 30, 2009 and December 31, 2008, respectively) | 39,253 | 72,497 |
| Loans: | | |
| Multi-family residential | 1,125,022 | 999,185 |
| Commercial real estate | 792,675 | 752,120 |
| One-to-four family mixed-use property | 746,997 | 751,952 |
| One-to-four family residential | 244,850 | 238,711 |
| Co-operative apartments | 6,078 | 6,566 |
| Construction | 106,349 | 103,626 |
| Small business administration | 17,960 | 19,671 |
| Taxi medallion | 46,353 | 12,979 |
| Commercial business and other | 74,762 | 69,759 |
| Net unamortized premiums and unearned loan fees | 17,085 | 17,121 |
| Allowance for loan losses | (18,578) | (11,028) |
| Net loans | 3,159,553 | 2,960,662 |
| Interest and dividends receivable | 19,389 | 18,473 |
| Bank premises and equipment, net | 22,978 | 22,806 |
| Federal Home Loan Bank of New York stock | 44,461 | 47,665 |
| Bank owned life insurance | 59,361 | 57,499 |
| Goodwill | 16,127 | 16,127 |
| Core deposit intangible | 1,991 | 2,342 |
| Other assets | 41,301 | 46,232 |
| Total assets | $4,176,796 | $3,949,471 |
| | | |
| LIABILITIES | | |
| Due to depositors: | | |
| Non-interest bearing | $83,934 | $69,624 |
| Interest-bearing: | | |
| Certificate of deposit accounts | 1,418,160 | 1,436,450 |
| Savings accounts | 445,673 | 359,595 |
| Money market accounts | 351,273 | 306,178 |
| NOW accounts | 367,778 | 265,762 |
| Total interest-bearing deposits | 2,582,884 | 2,367,985 |
| Mortgagors' escrow deposits | 30,812 | 31,225 |
| | 840,043 | 916,292 |

| | | |
|---|---|---|
| Borrowed funds ($106,356 and $107,689 at fair value pursuant to the fair value option at September 30, 2009 and December 31, 2008, respectively) | | |
| Securities sold under agreements to repurchase ($25,757 at fair value pursuant to the fair value option at December 31, 2008) | 186,900 | 222,657 |
| Other liabilities | 35,515 | 40,196 |
| Total liabilities | 3,760,088 | 3,647,979 |
| | | |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock ($0.01 par value; 5,000,000 shares authorized; 70,000 shares issued at September 30, 2009 and December 31, 2008, respectively liquidation preference value of $70,000) | 1 | 1 |
| Common stock ($0.01 par value; 40,000,000 shares authorized; 30,118,449 shares and 21,625,709 shares issued at September 30, 2009 and December 31, 2008, respectively; 30,114,154 shares and 21,625,709 shares outstanding at September 30, 2009 and December 31, 2008, respectively) | 301 | 216 |
| Additional paid-in capital | 244,036 | 150,662 |
| Treasury stock (4,295 shares and none at September 30, 2009 and December 31, 2008, respectively) | (46) | - |
| Unearned compensation | (755) | (1,300) |
| Retained earnings | 181,143 | 172,216 |
| Accumulated other comprehensive loss, net of taxes | (7,972) | (20,303) |
| Total stockholders' equity | 416,708 | 301,492 |
| | | |
| Total liabilities and stockholders' equity | $4,176,796 | $3,949,471 |

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 September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| (Dollars in thousands, except per share data) | 2009 | 2008 | 2009 | 2008 |
| Interest and dividend income | | | | |
| Interest and fees on loans | $48,518 | $47,766 | $144,745 | $142,243 |
| Interest and dividends on securities: | | | | |
| Interest | 8,365 | 5,916 | 26,674 | 15,952 |
| Dividends | 326 | 465 | 1,104 | 2,265 |
| Other interest income | 14 | 57 | 71 | 533 |
| Total interest and dividend income | 57,223 | 54,204 | 172,594 | 160,993 |
| | | | | |
| Interest expense | | | | |
| Deposits | 16,024 | 18,962 | 51,780 | 56,950 |
| Other interest expense | 12,127 | 13,112 | 36,765 | 39,105 |
| Total interest expense | 28,151 | 32,074 | 88,545 | 96,055 |
| | | | | |
| Net interest income | 29,072 | 22,130 | 84,049 | 64,938 |
| Provision for loan losses | 5,000 | 3,000 | 14,500 | 3,600 |
| Net interest income after provision for loan losses | 24,072 | 19,130 | 69,549 | 61,338 |
| | | | | |
| Non-interest income | | | | |
| Other-than-temporary impairment ("OTTI") charge | - | (26,320) | (9,637) | (26,320) |
| Less: Non-credit portion of OTTI charge recorded in Other Comprehensive Income, before taxes | - | - | 8,497 | - |
| Net OTTI charge recognized in earnings | - | (26,320) | (1,140) | (26,320) |
| Loan fee income | 403 | 655 | 1,333 | 2,051 |
| Banking services fee income | 459 | 394 | 1,326 | 1,232 |
| Net gain on sale of loans held for sale | - | 102 | - | 133 |
| Net gain on sale of loans | - | (84) | - | (15) |
| Net gain on sale of securities | 1,051 | 354 | 1,074 | 354 |
| Net gain from financial assets and financial liabilities carried at fair value | 950 | 20,555 | 4,002 | 18,614 |
| Federal Home Loan Bank of New York stock dividends | 644 | 729 | 1,600 | 2,464 |
| Bank owned life insurance | 659 | 563 | 1,862 | 1,666 |
| Other income | 391 | 390 | 1,541 | 3,872 |
| Total non-interest income | 4,557 | (2,662) | 11,598 | 4,051 |
| | | | | |
| Non-interest expense | | | | |
| Salaries and employee benefits | 7,159 | 6,518 | 22,026 | 19,799 |
| Occupancy and equipment | 1,669 | 1,708 | 5,067 | 4,929 |
| Professional services | 1,283 | 1,446 | 4,485 | 4,215 |
| FDIC deposit insurance | 1,186 | 429 | 5,383 | 995 |
| Data processing | 1,086 | 991 | 3,258 | 2,964 |

| | | | | |
|---|---|---|---|---|
| Depreciation and amortization of premises and equipment | 675 | 613 | 1,979 | 1,804 |
| Other operating expenses | 2,275 | 1,910 | 6,849 | 6,450 |
| Total non-interest expense | 15,333 | 13,615 | 49,047 | 41,156 |
| | | | | |
| Income before income taxes | 13,296 | 2,853 | 32,100 | 24,233 |
| | | | | |
| Provision for income taxes | | | | |
| Federal | 4,400 | 847 | 8,698 | 6,942 |
| State and local | 786 | (124) | 3,821 | 1,511 |
| Total taxes | 5,186 | 723 | 12,519 | 8,453 |
| | | | | |
| Net income | $8,110 | $2,130 | $19,581 | $15,780 |
| | | | | |
| Preferred dividends and amortization of issuance costs | $951 | $- | $2,854 | $- |
| Net income available to common shareholders | $7,159 | $2,130 | $16,727 | $15,780 |
| | | | | |
| Basic earnings per common share | $0.33 | $0.10 | $0.80 | $0.78 |
| Diluted earnings per common share | $0.33 | $0.10 | $0.80 | $0.78 |
| Dividends per common share | $0.13 | $0.13 | $0.39 | $0.39 |

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)

| (Dollars in thousands) | For the nine months ended September 30, 2009 | 2008 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $ 19,581 | $ 15,780 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 14,500 | 3,600 |
| Depreciation and amortization of bank premises and equipment | 1,979 | 1,804 |
| Origination of loans held for sale | - | (2,988) |
| Proceeds from sale of loans held for sale | - | 3,108 |
| Net gain on sale of loans held for sale | - | (133) |
| Net loss on sales of loans | - | 15 |
| Net gain on sale of securities | (1,074) | (354) |
| Amortization of premium, net of accretion of discount | 3,125 | 1,483 |
| Fair value adjustment for financial assets and financial liabilities | (4,002) | (18,614) |
| OTTI charge recognized in earnings | 1,140 | 26,320 |
| Income from bank owned life insurance | (1,862) | (1,666) |
| Stock-based compensation expense | 1,747 | 1,838 |
| Deferred compensation | (7) | (698) |
| Amortization of core deposit intangibles | 351 | 351 |
| Excess tax expense (benefits) from stock-based payment arrangements | 188 | (607) |
| Deferred income tax (benefit) provision | 10,257 | (4,765) |
| Increase in other liabilities | 22 | 2,892 |
| Increase in other assets | (16,219) | (7,604) |
| Net cash provided by operating activities | 29,726 | 19,762 |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of bank premises and equipment | (2,151) | (762) |
| Net (purchases) redemptions of Federal Home Loan Bank of New York shares | 3,204 | (2,726) |
| Purchases of securities available for sale | (130,695) | (242,068) |
| Proceeds from sales and calls of securities available for sale | 53,968 | 96,950 |
| Proceeds from maturities and prepayments of securities available for sale | 157,608 | 41,392 |
| Net originations and repayment of loans | (186,550) | (144,509) |
| Purchases of loans | (32,572) | (65,253) |
| Proceeds from sale of real estate owned | 114 | - |
| Proceeds from sale of delinquent loans | 3,046 | 10,734 |
| Net cash used in investing activities | (134,028) | (306,242) |
| | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net increase in non-interest bearing deposits | 14,310 | 2,228 |
| Net increase in interest-bearing deposits | 214,222 | 230,132 |
| Net increase (decrease) in mortgagors' escrow deposits | (413) | 9,688 |
| Net (repayments) proceeds from of short-term borrowed funds | (4,800) | 20,000 |
| Proceeds from long-term borrowings | 79,911 | 173,050 |

| | | |
|---|---|---|
| Repayment of long-term borrowings | (185,026) | (149,026) |
| Purchases of treasury stock | (231) | (409) |
| Excess tax benefits from stock-based payment arrangements | (188) | 607 |
| Proceeds from issuance of common stock upon exercise of stock options | 617 | 2,364 |
| Proceeds from issuance of common stock | 90,505 | - |
| Cash dividends paid | (10,374) | (7,774) |
| Net cash provided by financing activities | 198,533 | 280,860 |
| | | |
| Net increase (decrease) in cash and cash equivalents | 94,231 | (5,620) |
| Cash and cash equivalents, beginning of period | 30,404 | 36,148 |
| Cash and cash equivalents, end of period | $124,635 | $30,528 |
| | | |
| SUPPLEMENTAL CASH FLOW DISCLOSURE | | |
| Interest paid | $89,040 | $93,916 |
| Income taxes paid | 9,630 | 11,597 |
| Taxes paid if excess tax benefits were not tax deductible | 9,442 | 12,204 |
| Non-cash activities: | | |
| Securities purchased, not yet settled | 5,804 | 1,000 |
| Additions to real estate owned | 1,681 | 125 |

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 nine months ended September 30, | |
|---|---|---|
| (Dollars in thousands) | 2009 | 2008 |
| Preferred Stock | | |
| Balance, beginning of period | $1 | $- |
| No activity | - | - |
| Balance, end of period | $1 | $- |
| Common Stock | | |
| Balance, beginning of period | $216 | $213 |
| Issuance upon exercise of stock options (96,742 and 210,710 common shares for the nine months ended September 30, 2009 and 2008, respectively) | 1 | 2 |
| Shares issued upon vesting of restricted stock unit awards (78,598 and 93,435 common shares for the nine months ended September 30, 2009 and 2008, respectively) | 1 | 1 |
| Issuance of common shares (8,317,400 common shares for the nine months ended September 30, 2009) | 83 | - |
| Balance, end of period | $301 | $216 |
| Additional Paid-In Capital | | |
| Balance, beginning of period | $150,662 | $74,861 |
| Additional preferred stock issuance costs | (144) | - |
| Amortization of preferred stock issuance costs | 228 | - |
| Award of common shares released from Employee Benefit Trust (165,376 and 82,687 common shares for the nine months ended September 30, 2009 and 2008, respectively) | 854 | 853 |
| Shares issued upon vesting of restricted stock unit awards (95,779 and 95,925 common shares for the nine months ended September 30, 2009 and 2008, respectively) | 1,513 | 1,587 |
| Issuance upon exercise of stock options (96,742 and 210,710 common shares for the nine months ended September 30, 2009 and 2008, respectively) | 669 | 2,370 |
| Stock-based compensation activity, net | 20 | (102) |
| Stock-based income tax benefit (expense) | (188) | 607 |
| Issuance of common shares (8,317,400 common shares for the nine months ended September 30, 2009) | 90,422 | - |
| Balance, end of period | $244,036 | $80,176 |
| Treasury Stock | | |
| Balance, beginning of period | $- | $- |
| Shares issued upon vesting of restricted stock unit awards (17,181 and 13,810 common shares for the nine months ended September 30, 2009 and 2008, respectively) | 179 | 258 |
| Issuance upon exercise of stock options (25,558 and 8,493 common shares for the nine months ended September 30, 2009 and 2008, respectively) | 258 | 151 |
| Repurchase of shares to satisfy tax obligations (22,186 and 22,303common shares for the nine months ended September 30, 2009 and 2008, respectively) | (231) | (409) |
| Purchase of shares to pay for option exercise (24,848 common shares for the nine months ended September 30, 2009) | (252) | - |
| Balance, end of period | $(46) | $- |
| Unearned Compensation | | |

| | | |
|---|---|---|
| Balance, beginning of period | $(1,300) | $(2,110) |
| Release of shares from the Employee Benefit Trust (159,470 and 178,399 common shares for the nine months ended September 30, 2009 and 2008, respectively) | 545 | 608 |
| Balance, end of period | $(755) | $(1,502) |

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 (continued)
(Unaudited)

| (Dollars in thousands) | For the nine months ended September 30, 2009 | 2008 |
|---|---|---|
| Retained Earnings | | |
| Balance, beginning of period | $ 172,216 | $ 161,598 |
| Net income | 19,581 | 15,780 |
| Cash dividends declared and paid on common shares ($0.39 per common share for the nine months ended September 30, 2009 and 2008, respectively) | (8,079 ) | (7,774 ) |
| Cash dividends declared and paid on preferred shares (5.00% cumulative preferred dividends for the nine months ended September 30, 2009) | (2,295 ) | - |
| Issuance upon exercise of stock options (25,558 and 8,493 common shares for the nine months ended September 30, 2009 and 2008, respectively) | (52 ) | (66 ) |
| Shares issued upon vesting of restricted stock unit awards (11,320 common shares nine months ended September 30, 2008) | - | (33 ) |
| Cumulative adjustment related to the adoption of Emerging Issues Task Force Issue 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 ) |
| Amortization of preferred stock issuance costs | (228 ) | - |
| Balance, end of period | $ 181,143 | $ 168,906 |
| Accumulated Other Comprehensive Loss | | |
| Balance, beginning of period | $ (20,303 ) | $ (908 ) |
| Change in net unrealized gain (loss) on securities available for sale, net of taxes of approximately ($9,785) and $23,182 for the nine months ended September 30, 2009 and 2008, respectively | 12,148 | (29,162 ) |
| Amortization of actuarial losses, net of taxes of approximately ($101) and ($23) for the nine months ended September 30, 2009 and 2008, respectively | 126 | 28 |
| Amortization of prior service costs, net of taxes of approximately ($16) and ($8)for the nine months ended September 30, 2009 and 2008, respectively | 20 | 10 |
| 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 |
| OTTI charges included in income, net of taxes of approximately ($507) and ($11,660)for the nine months ended September 30, 2009 and 2008, respectively | 633 | 14,660 |
| | (596 ) | (197 ) |

| | | |
|---|---|---|
| Reclassification adjustment for (gains) losses included in net income, net of taxes of approximately $10 and $157 for the nine months ended September 30, 2009and 2008, respectively | | |
| Balance, end of period | $(7,972) | $(15,556) |
| | | |
| Total Stockholders' Equity | $416,708 | $232,240 |

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Comprehensive Income | | | | |
| Net income | $8,110 | $2,130 | $19,581 | $15,780 |
| Other comprehensive income, net of tax | | | | |
| Amortization of actuarial losses | 41 | 10 | 126 | 28 |
| Amortization of prior service costs | 7 | 3 | 20 | 10 |
| OTTI charges included in income | - | 14,660 | 633 | 14,660 |
| Reclassification adjustments for gains included in income | (583) | (197) | (596) | (197) |
| Unrealized gains (losses) on securities | 9,433 | (22,185) | 12,148 | (29,162) |
| Comprehensive income | $17,008 | $(5,579) | $31,912 | $1,119 |

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 "Bank"). The unaudited consolidated financial statements presented in this Form 10-Q include the collective results of the Holding Company and the 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 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 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 2008 Annual Report on Form 10-K.

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 10-Q now 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 period. 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." Effective January 1, 2009, the Company adopted new authoritative accounting guidance under ASC Topic 260, 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. Earnings per share for the three and nine months ended September 30, 2008 have been retrospectively adjusted to reflect the effects of ASC Topic 260. 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

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PART I – FINANCIAL INFORMATION
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Notes to Consolidated Financial Statements
(Unaudited)

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.

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

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (In thousands, except per share data) | | | |
| Net income, as reported | $8,110 | $2,130 | $19,581 | $15,780 |
| Preferred dividends and amortization of issuance costs | (951) | - | (2,854) | - |
| Net income available to common shareholders | $7,159 | $2,130 | $16,727 | $15,780 |
| Divided by: | | | | |
| Weighted average common shares outstanding | 21,519 | 20,325 | 20,946 | 20,152 |
| Weighted average common stock equivalents | 15 | 161 | 8 | 185 |
| Total weighted average common shares outstanding and common stock equivalents | 21,534 | 20,486 | 20,954 | 20,337 |
| | | | | |
| Basic earnings per common share | $0.33 | $0.10 | $0.80 | $0.78 |
| Diluted earnings per common share (1)(2) | $0.33 | $0.10 | $0.80 | $0.78 |
| Dividend payout ratio | 39.4 % | 130.0 % | 48.8 % | 50.0 % |

(1) For the three months ended September 30, 2009, a Warrant to purchase 751,611 shares at an exercise price of $13.97 and options to purchase 1,160,323 shares at an average exercise price of $15.35 were not included in the computation of diluted earnings per common share since they were anti-dilutive. For the three months ended September 30, 2008, options to purchase 336,925 shares at an average exercise price of $18.36 were not included in the computation of diluted earnings per common share since they were anti-dilutive.

(2) For the nine months ended September 30, 2009, a Warrant to purchase 751,611 shares at an exercise price of $13.97 and options to purchase 1,418,073 shares at an average exercise price of $14.33 were not included in the computation of diluted earnings per common share since they were anti-dilutive. For the nine months ended September 30, 2008, options to purchase 336,925 shares at an average exercise price of $18.36 were not included in the computation of diluted earnings per common share since they were anti-dilutive.

## 4. Debt and Equity Securities

Effective April 1, 2009, the Company adopted updated accounting guidance under ASC Topic 320 “Investments – Debt and Equity Securities.” The updated ASC superseded previous other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in financial statements. The update replaced the previously existing requirement that an entity’s management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert that it does not have the intent to sell the security and it is more likely than not it will not have to sell the security before recovery of its cost basis. The update requires an entity to recognize impairment losses on a debt security attributed to credit in income, and to recognize noncredit impairment losses in accumulated other comprehensive income. This requirement applies to debt securities held to maturity as well as debt securities held as available for sale. Upon adoption of this update, an entity will be required to record a cumulative-effect adjustment as of the beginning of the period of adoption to reclassify the noncredit component of a previously recognized other-than-temporary impairment ("OTTI") from retained earnings to accumulated other comprehensive income if the entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery.

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.

All of the Company's securities at September 30, 2009 and December 31, 2008 were classified as available for sale.

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The amortized cost and fair value of the Company's securities classified as available for sale at September 30, 2009 are as follows:

| | Amortized Cost | Fair Value | Gross Unrealized Gains | Gross Unrealized Losses |
|---|---|---|---|---|
| | | (In thousands) | | |
| U.S. government agencies | $3,414 | $3,531 | $117 | $- |
| Other | 34,987 | 28,431 | 188 | 6,744 |
| Mutual funds | 7,291 | 7,291 | - | - |
| Total other securities | 45,692 | 39,253 | 305 | 6,744 |
| REMIC and CMO | 377,535 | 369,272 | 9,431 | 17,694 |
| GNMA | 126,950 | 131,543 | 4,593 | - |
| FNMA | 103,437 | 107,085 | 3,648 | - |
| FHLMC | 38,785 | 39,847 | 1,062 | - |
| Total mortgage-backed securities | 646,707 | 647,747 | 18,734 | 17,694 |
| Total securities available for sale | $692,399 | $687,000 | $19,039 | $24,438 |

The amortized cost and fair value of the Company's securities classified as available for sale at December 31, 2008 are as follows:

| | Amortized Cost | Fair Value | Gross Unrealized Gains | Gross Unrealized Losses |
|---|---|---|---|---|
| | | (In thousands) | | |
| U.S. government agencies | $12,616 | $12,658 | $42 | $- |
| Other | 46,623 | 40,725 | 169 | 6,067 |
| Mutual funds | 19,114 | 19,114 | - | - |
| Total other securities | 78,353 | 72,497 | 211 | 6,067 |
| REMIC and CMO | 330,767 | 304,511 | 3,386 | 29,642 |
| GNMA | 152,350 | 154,553 | 2,270 | 67 |
| FNMA | 165,375 | 167,592 | 2,341 | 124 |
| FHLMC | 47,815 | 48,108 | 293 | - |
| Total mortgage-backed securities | 696,307 | 674,764 | 8,290 | 29,833 |
| Total securities available for sale | $774,660 | $747,261 | $8,501 | $35,900 |

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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 September 30, 2009:

| | Total | | Less than 12 months | | 12 months or more | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (In thousands) | | | | | |
| Other | $7,056 | $6,744 | $- | $- | $7,056 | $6,744 |
| Total other securities | 7,056 | 6,744 | - | - | 7,056 | 6,744 |
| REMIC and CMO | 72,067 | 17,694 | 15,485 | 145 | 56,582 | 17,549 |
| Total mortgage-backed securities | 72,067 | 17,694 | 15,485 | 145 | 56,582 | 17,549 |
| Total securities available for sale | $79,123 | $24,438 | $15,485 | $145 | $63,638 | $24,293 |

The Company conducts reviews of each investment that has an unrealized loss. 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 loss. Unrealized losses that are considered to be other-than-temporary are split between credit related and non-credit related impairments, with the credit related impairment being recorded as a charge against earnings in the Consolidated Statement of Income and the non-credit impairment being recorded in accumulated other comprehensive income, net of tax. There were no credit related OTTI charges recorded for the three months ended September 30, 2009. For the three months ended September 30, 2008, the Company recorded credit related OTTI charges of $26.3 million. For the nine months ended September 30, 2009 and 2008, the Company recorded credit related OTTI charges of $1.1 million and $26.3 million, respectively.

The unrealized losses in Other securities at September 30, 2009 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 three pooled trust preferred issues. The Company evaluates these securities using an impairment model that is applied to debt securities. This review includes evaluating the financial condition of each counter party. Each of these securities is performing according to its terms, and, in the opinion of management, will continue to perform according to their 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 September 30, 2009.

The unrealized losses in REMIC and CMO securities at September 30, 2009 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 one issue from FHLMC, one issue from FNMA and 10 private issues.

The unrealized losses on the REMIC and CMO securities issued by FHLMC and FNMA 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 their 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 September 30, 2009.

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. Management periodically reviews the characteristics of these securities, including delinquency and foreclosure levels, projected losses at various loss severity levels, and credit enhancement and coverage. Based on

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these reviews, during the quarter ended June 30, 2009, an OTTI charge was recorded on one privately issued collateralized mortgage obligation of $9.6 million before tax, of which $1.1 million was charged against earnings in the Consolidated Statement of Income and $8.5 million before tax ($4.7 million after-tax) was recorded in Accumulated Other Comprehensive Loss.

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 a default rate of 10% for the first 12 months, 8% for the next twelve months, 6% for the next twelve months, and 2% thereafter, a loss severity of 40% of the principal, and a prepayment speed of 10%.

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. Each of these securities is performing according to its terms, and, in the opinion of management, except for the above mentioned security on which the OTTI charge was recorded, will continue to perform according to their 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 the other nine investments to be other-than-temporarily impaired at September 30, 2009. The Company did not consider the security for which an other-than-temporary impairment charge was recorded during the second quarter of 2009 to be other-than-temporarily impaired beyond the amount recorded in the second quarter of 2009.

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 December 31, 2008:

| | Total | | Less than 12 months | | 12 months or more | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (In thousands) | | | | | |
| Other | $7,733 | $6,067 | $7,733 | $6,067 | $- | $- |
| Total other securities | 7,733 | 6,067 | 7,733 | 6,067 | - | - |
| REMIC and CMO | 92,659 | 29,642 | 74,970 | 19,475 | 17,689 | 10,167 |
| GNMA | 12,187 | 67 | 12,187 | 67 | - | - |
| FNMA | 17,151 | 124 | 9,999 | 101 | 7,152 | 23 |
| Total mortgage-backed securities | 121,997 | 29,833 | 97,156 | 19,643 | 24,841 | 10,190 |
| Total securities available for sale | $129,730 | $35,900 | $104,889 | $25,710 | $24,841 | $10,190 |

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 other comprehensive loss for the periods indicated:

For the nine

| (in thousands) | For the three months ended September 30, 2009 | months ended September 30, 2009 |
|---|---|---|
| Beginning balance | $1,140 | $- |
| | | |
| OTTI charges due to credit loss recorded in earnings | - | 1,140 |
| Securities sold during the period | - | - |
| Securities where there is an intent to sell or requirement to sell | - | - |
| Ending balance | $1,140 | $1,140 |

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| | September 30, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| | (In thousands) | | | |
| Due in one year or less | $13,281 | $13,284 | $36,766 | $36,924 |
| Due after one year through five years | 10,894 | 11,011 | 11,220 | 11,258 |
| Due after five years through ten years | - | - | 8,654 | 8,668 |
| Due after ten years | 21,517 | 14,958 | 21,713 | 15,647 |
| | | | | |
| Total other securities | 45,692 | 39,253 | 78,353 | 72,497 |
| Mortgage-backed securities | 646,707 | 647,747 | 696,307 | 674,764 |
| | | | | |
| Total securities available for sale | $692,399 | $687,000 | $774,660 | $747,261 |

For the three and nine months ended September 30, 2009 and 2008, there were realized gross gains of $1.1 million and $0.5 million, respectively. For the three and nine months ended September 30, 2008, there were realized gross losses of $0.1 million.

## 5. Loans

Loans are reported at their principal outstanding balance net of any unearned income, charge-offs, deferred loan fees and costs on originated loans and unamortized premiums or discounts on purchased loans. Interest on loans is recognized on the accrual basis. The accrual of income on loans is discontinued when certain factors, such as contractual delinquency of ninety days or more, indicate reasonable doubt as to the timely collectability of such income. Uncollected interest previously recognized on non-accrual loans is reversed from interest income at the time the loan is placed on non-accrual status. A non-accrual loan can be returned to accrual status after the loan meets certain criteria. Subsequent cash payments received on non-accrual loans that do not meet the criteria are applied first as a reduction of principal until all principal is recovered and then subsequently to interest. Loan fees and certain loan origination costs are deferred at the time of origination, and are amortized into interest income over the contractual life of the loans using the level-yield method. Prepayment penalties received on loans which pay in full prior to their scheduled maturity are recorded in interest income at the time the loan is paid in full.

A loan is considered impaired when, based upon current information, the Company believes it is probable that it will be unable to collect all amounts due, both principal and interest, according to the contractual terms of the loan. All non-accrual loans are considered impaired. Impaired loans are measured based on the present value of the expected future cash flows discounted at the loan's effective interest rate or at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. Interest income on impaired loans is recorded on the cash basis. The Company reviews all non-accrual loans for impairment on an ongoing basis. Additionally, on a quarterly basis the property value of impaired mortgage loans are internally reviewed, based on updated cash flows for income producing properties, and at times an updated independent appraisal is obtained. The loan balance of impaired mortgage loans is then compared to the properties updated estimated value and any balance over 90% of the loans updated estimated value is charged-off. Impaired mortgage loans that were written down resulted from quarterly reviews or updated appraisals that indicated the properties' estimated value had declined from when the loan was originated.

As the Bank continues to increase its loan portfolio, management continues to adhere to the Bank's conservative underwriting standards. The majority of the Bank's non-performing loans are collateralized by residential income producing properties that are occupied, thereby retaining more of their value and reducing the potential loss. The Bank takes a proactive approach to managing delinquent loans, including conducting site examinations and encouraging borrowers to meet with a Bank representative. The Bank has been developing short-term payment plans that enable certain borrowers to bring their loans current. The Bank reviews its delinquencies on a loan by loan basis and continually explores ways to help borrowers meet their obligations and return them back to current status. At times, the Bank may restructure a loan to enable a borrower to continue making payments when it is deemed to be in the best long-term interest of the Bank. This restructure may include reducing the interest rate or amount of the monthly payment for a specified period of time, after which the interest rate and repayment terms revert to the original terms of the loan. The Bank classifies these loans as "Troubled Debt Restructured," and also classifies these loans as non-performing loans.

The total amount of non-performing loans increased $41.4 million during the nine months ended September 30, 2009 to $81.4 million from $40.0 million at December 31, 2008. The total amount of loans on non-accrual status was $75.7 million at September 30, 2009 and $38.7 million at December 31, 2008. The total amount of loans classified as impaired was $75.6 million at September 30, 2009 and $40.1 million at December 31, 2008. The portion of the allowance for loan losses allocated to impaired loans was $7.5 million, or 40.4%, at September 30, 2009 and $5.6 million, or 50.9%, at December 31, 2008.

The interest foregone on non-accrual loans for the three and nine months ended September 30, 2009 was $1.3 million and $3.5 million, respectively. The interest foregone on non-accrual loans for the three and nine months ended September 30, 2008 was $0.4 million and $0.7 million, respectively.

The Company recorded a provision for loan losses of $14.5 million during the nine months ended September 30, 2009, which was a $10.9 million increase from the $3.6 million provision recorded during the nine months ended September 30, 2008. The provision for loan losses recorded in 2009 was primarily due to an increase in both non-performing loans and the level of charge-offs recorded in 2009. This increase in non-performing loans primarily consists of mortgage loans collateralized by residential income producing properties that are located in the New York City metropolitan market. Prior to 2009, the Bank had recorded minimal losses on mortgage loans. The Bank continues to maintain conservative underwriting standards that include, among other things, a loan to value ratio of 75% or less and a debt coverage ratio of at least 125%. However, given the increase in non-performing loans, the current economic uncertainties, and the charge-offs recorded during 2009, management, as a result of the regular quarterly analysis of the allowance for loans losses, deemed it necessary to record an additional provision for possible loan losses in the nine months ended 2009.

The allowance for loan losses is established through charges to earnings in the form of a provision for loan losses. When a loan or a portion of a loan is determined to be uncollectible, the portion deemed uncollectible is charged against the allowance, and subsequent recoveries, if any, are credited to the allowance. During the three months ended September 30, 2009 and 2008, the Bank recorded net loan charge-offs of $0.8 million and $0.4 million, respectively. During the nine months ended September 30, 2009 and 2008, the Bank recorded net loan charge-offs of $7.0 million and $0.7 million, respectively.

The following are changes in the allowance for loan losses for the periods indicated:

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| (In thousands) | 2009 | 2008 | 2009 | 2008 |
| Balance, beginning of period | $14,427 | $6,934 | $11,028 | $6,633 |
| Provision for loan losses | 5,000 | 3,000 | 14,500 | 3,600 |
| Charge-off's | (884) | (393) | (7,006) | (774) |
| Recoveries | 35 | 3 | 56 | 85 |
| Balance, end of period | $18,578 | $9,544 | $18,578 | $9,544 |

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The following table shows net loan charge-offs for the periods indicated by type of loan:

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| (In thousands) | 2009 | 2008 | 2009 | 2008 |
| Multi-family residential | $212 | $229 | $1,744 | $367 |
| Commercial real estate | 100 | - | 116 | - |
| One-to-four family – mixed-use property | 158 | - | 864 | - |
| One-to-four family – residential | 1 | - | 56 | - |
| Construction | - | - | 407 | - |
| Small Business Administration | 318 | 161 | 815 | 321 |
| Commercial business and other loans | 60 | - | 2,948 | 1 |
| Total | $849 | $390 | $6,950 | $689 |

## 6. Stock-Based Compensation

In accordance with ASC topic 718 “Stock Compensation,” 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, key assumptions are used to estimate the fair value of stock options including 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 nine months ended September 30, 2009, there were 118,100 stock options and 124,350 restricted stock units granted, while for the nine months ended September 30, 2008, there were 88,100 stock options and 128,570 restricted stock units granted. There were no stock options or restricted stock units granted during the three month periods ended September 30, 2009 and 2008.

For the three months ended September 30, 2009 and 2008, the Company’s net income, as reported, includes $0.5 million and $0.4 million, respectively, of stock-based compensation costs and $0.2 million and $0.2 million, respectively, of income tax benefits related to the stock-based compensations plans. For the nine months ended September 30, 2009 and 2008, the Company’s net income, as reported, includes $1.7 million and $1.9 million, respectively, of stock-based compensation costs and $0.7 million and $0.7 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 nine months ended September 30, | |
|---|---|---|
| | 2009 | 2008 |
| Dividend yield | 6.16 % | 3.38 % |
| Expected volatility | 34.99 % | 28.91 % |
| Risk-free interest rate | 2.27 % | 3.82 % |

| | | |
|---|---|---|
| Expected option life (years) | 7 | 7 |

There were no stock options granted during the three months ended September 30, 2009 and 2008.

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

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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.

The Omnibus Plan provides for annual grants of 3,600 shares of restricted stock to the Company's non-employee directors. These shares were awarded on June 1 of each year following the date of the director's initial election or appointment as a non-employee director of the Company. Additionally, the Omnibus Plan provides for an initial grant of restricted stock to non-employee directors upon their initial election or appointment. The number of shares awarded under the initial grant are determined by a formula which allocates 300 shares for each full or partial month from the date of such director's initial election or appointment to the following June 1. During January 2009, the Compensation Committee and the Board of Directors approved an amendment to the Omnibus Plan that changed the date annual grants to non-employee directors are awarded to January 30. The Omnibus Plan was also amended at the same time to change the formula for which initial grants to non-employee directors are determined, from allocating 300 shares for each full or partial month from the date of such director's initial election or appointment to the following January 30. The Compensation Committee may substitute shares of restricted stock with restricted stock units prior to grant.

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 ten 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.

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.

The following table summarizes the Company's full value awards at or for the nine months ended September 30, 2009:

| | Shares | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| Non-vested at December 31, 2008 | 211,158 | $ 18.02 |

| | | | |
|---|---|---|---|
| Granted | 124,350 | | 8.44 |
| Vested | (96,559 ) | | 14.66 |
| Forfeited | (5,870 ) | | 14.19 |
| Non-vested at September 30, 2009 | 233,079 | | 14.40 |
| | | | |
| Vested but unissued at September 30, 2009 | 66,535 | $ | 13.72 |
| | | | |
| Vested but unissued at December 31, 2008 | 65,755 | $ | 18.10 |

As of September 30, 2009, there was $2.7 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 weighted-average period of 2.9 years. The total fair value of awards vested during the three months ended September 30, 2009 and

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2008 was $9,000 and $5,000, respectively, with the nine months ended September 30, 2009 and 2008 at $0.9 million and $1.9 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 earlier of the employee's or director's retirement date or the original contractual vesting dates.

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 holder of fewer shares than the number underlying the award, or the settlement of the award in cash.

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 nine months ended September 30, 2009:

| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value ($000)* |
|---|---|---|---|---|
| Outstanding at December 31, 2008 | 1,428,033 | $ 14.18 | | |
| Granted | 118,100 | 8.44 | | |
| Exercised | (122,300 ) | 7.10 | | |
| Forfeited | (5,400 ) | 11.27 | | |
| Outstanding at September 30, 2009 | 1,418,433 | $ 14.31 | 5.3 years | $ 431 |
| | | | | |
| Exercisable shares at September 30, 2009 | 1,132,133 | $ 14.40 | 4.5 years | $ 93 |
| Vested but unexercisable shares at September 30, 2009 | 5,620 | $ 15.80 | 8.0 years | $ 3 |

* The intrinsic value of a stock option is the difference between the market value of the underlying stock and the exercise price of the option.

As of September 30, 2009, there was $0.8 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 weighted-average period of 2.9 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 earlier of the employee's or director's retirement date or 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 months and nine months ended September 30, 2009 and 2008 are provided in the following table:

| (In thousands except grant date fair value) | For the three months ended September 30, 2009 | 2008 | For the nine months ended September 30, 2009 | 2008 |
|---|---|---|---|---|
| Proceeds from stock options exercised | $- | $289 | $617 | $2,364 |
| Fair value of shares received upon exercise of stock options | - | - | 251 | - |
| Tax benefit (expense) related to stock options exercised | - | (55) | 39 | 500 |
| Intrinsic value of stock options exercised | - | 292 | 177 | 1,752 |
| Grant date fair value at weighted average | n/a | n/a | 1.26 | 4.66 |

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 Senior Vice President and above and completed one year of service. However, officers who had achieved at least the level of Vice President and completed one year of

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service prior to January 1, 2009 remain eligible to participate in the phantom stock plan. 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.

The following table summarizes the Company's Phantom Stock Plan at or for the nine months ended September 30, 2009:

| | Shares | Fair Value |
|---|---|---|
| Outstanding at December 31, 2008 | 15,760 | $ 11.96 |
| Granted | 9,627 | 8.53 |
| Forfeited | (47) | 6.49 |
| Distributions | (436) | 9.12 |
| Outstanding at September 2009 | 24,904 | |