

FLUSHING FINANCIAL CORP
Form S-4
April 10, 2006
Table of Contents

As filed with the Securities and Exchange Commission on April 10, 2006

Registration No. 333-_____

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-4
REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

FLUSHING FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

6035
(Primary Standard Industrial
Classification Code Number)
1979 Marcus Avenue, Suite E140

11-3209278
(I.R.S. Employer
Identification Number)

Lake Success, New York 11042

(718) 961-5400

(Address, Including Zip Code, and Telephone Number, Including Area Code, of

Registrant's Principal Executive Offices)

Mr. John R. Buran

President and Chief Executive Officer

Flushing Financial Corporation

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1979 Marcus Avenue, Suite E140

Lake Success, New York 11042

(718) 961-5400

(Address, Including Zip Code, and Telephone Number,

Including Area Code, of Agent for Service)

Copies to:

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Thacher Proffitt & Wood LLP
Two World Financial Center
New York, New York 10281
(212) 912-7400

Alan Schick, Esq.
Luse Gorman Pomerenk & Schick, P.C.
5335 Wisconsin Avenue, N.W., Suite 400
Washington D.C. 20015
(202) 274-2000

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective and upon completion of the merger described in the enclosed document.

If the securities being registered on this Form are to be offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum		
		offering price per share	Proposed maximum aggregate offering price	Amount of registration fee
Common Stock, \$0.01 par value per share	1,598,698 shares (1)	n/a	\$26,484,733 (2)	\$2,833.87 (2)

(1) Represents the maximum number of shares of Flushing Financial Corporation common stock estimated to be issuable upon completion of the merger of Atlantic Liberty Financial Corp. with and into Flushing Financial Corporation, based on the number of shares of Atlantic Liberty Financial Corp. common stock, par value \$0.10 per share, outstanding as of December 31, 2005, and the exchange of 65% of Atlantic Liberty Financial Corp. common stock for 1.43 shares of Flushing Financial common stock per share.

(2) Pursuant to Rule 457(f), the registration fee was computed on the basis of \$23.69, the market value of the common stock of Atlantic Liberty to be exchanged or cancelled in the merger, computed in accordance with Rule 457(c) on the basis of the average of the high and low price per share of such common stock quoted on the Nasdaq National Market on April 7, 2006, and 1,117,971 shares of common stock of Atlantic Liberty, which is the estimated maximum number of shares that may be exchanged for the Flushing Financial Corporation common stock being registered.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities

and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This document shall not constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT

The boards of directors of Flushing Financial Corporation and Atlantic Liberty Financial Corp. have both unanimously approved the merger agreement between Flushing Financial and Atlantic Liberty pursuant to which Atlantic Liberty will be merged with and into Flushing Financial. Atlantic Liberty stockholders will have the opportunity to elect the form of merger consideration to be received for each share of Atlantic Liberty common stock owned. Each Atlantic Liberty stockholder may elect to receive 1.43 shares of Flushing Financial common stock, or a cash payment of \$24.00, or a combination of Flushing Financial common stock and cash, for each share of Atlantic Liberty common stock they own. However, because 65% of the total number of shares of Atlantic Liberty common stock outstanding at the closing will be converted into Flushing Financial common stock and the remaining 35% of the outstanding shares will be converted into cash, you may receive a combination of cash and shares of Flushing Financial common stock for your Atlantic Liberty shares that is different than what you elected depending on the elections made by other Atlantic Liberty stockholders.

The value of the stock component of the merger consideration will fluctuate with the market price of Flushing Financial common stock. Based on the closing price of \$ _____ per share of Flushing Financial common stock on _____, 2006, the latest practicable trading day before the distribution of this document, each share of Atlantic Liberty common stock that is exchanged solely for Flushing Financial common stock would be converted into 1.43 shares of Flushing Financial common stock having an implied value of \$ _____. The market prices of both Flushing Financial common stock and Atlantic Liberty common stock will fluctuate before the merger. You should obtain current market quotations for the shares of both companies from a newspaper, the internet or your broker. Flushing Financial common stock is listed on the Nasdaq National Market under the symbol FFIC. Atlantic Liberty common stock is listed on the Nasdaq National Market under the symbol ALFC.

We expect that the merger will generally be tax-free to you with respect to any Flushing Financial common stock that you receive and will generally be taxable to you with respect to any cash that you receive.

The merger cannot be completed unless the stockholders of Atlantic Liberty approve the merger agreement. Atlantic Liberty has scheduled a special meeting for its stockholders to vote on the merger agreement. Atlantic Liberty's board of directors unanimously recommends that its stockholders vote **FOR** approval of the merger agreement.

Atlantic Liberty will hold its special meeting on _____, 2006, at 3:30 p.m., local time, at the main office of Atlantic Liberty Savings, F.A., 186 Montague Street, Brooklyn, New York.

This document serves as the proxy statement for the special meeting of stockholders of Atlantic Liberty and the prospectus for the shares of Flushing Financial to be issued in the merger. This document describes the special meeting, the merger, the documents related to the merger, and other related matters. **We urge you to read this entire document carefully. In particular, you should carefully consider the discussion in the section titled Risk Factors beginning on page 14. You can also obtain information about our companies from documents that each of us has filed with the Securities and Exchange Commission.**

Table of Contents

Your vote is very important. Whether or not you plan to attend the special meeting, please take the time to vote by completing and mailing the enclosed proxy card to us. If you sign, date and mail your proxy card without indicating how you want to vote, your proxy will be counted as a vote **FOR** the merger. If you do not return the proxy card, it will have the same effect as a vote against the merger.

The securities of Flushing Financial to be issued under this document are not deposits or savings accounts and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Neither the Securities and Exchange Commission, the Office of Thrift Supervision nor any state securities regulator has approved or disapproved of the securities or determined if this document is accurate or complete. Any representation to the contrary is a criminal offense.

This document is dated, _____, 2006 and is first being mailed to stockholders of Atlantic Liberty on or about _____, 2006.

Table of Contents

ADDITIONAL INFORMATION

This document incorporates important business and financial information about Flushing Financial from documents that are not included in or delivered with this document. You can obtain documents incorporated by reference in this document without charge by requesting them in writing or by telephone from Flushing Financial at the following addresses:

Flushing Financial Corporation

1979 Marcus Avenue, Suite E140

Lake Success, New York 11042

Attention: David W. Fry

Telephone: (718) 961-5400

See **Where You Can Find More Information** on page 101.

Atlantic Liberty stockholders requesting documents should do so by , 2006 in order to receive them before the special meeting.

Table of Contents

ATLANTIC LIBERTY FINANCIAL CORP.

186 Montague Street

Brooklyn, New York 12201

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To Be Held on _____, 2006

NOTICE IS HEREBY GIVEN that a special meeting of stockholders of Atlantic Liberty Financial Corp. will be held at the main office of Atlantic Liberty Savings, F.A., located at 186 Montague Street, Brooklyn, New York, at 3:30 p.m., local time, on _____, 2006, to consider and vote upon the following matters:

a proposal to approve the agreement and plan of merger, by and between Flushing Financial Corporation and Atlantic Liberty, dated as of December 20, 2005, and all of the matters contemplated in the agreement, pursuant to which Atlantic Liberty will merge with and into Flushing Financial, with Flushing Financial being the surviving corporation; and

a proposal to approve the adjournment of the special meeting, if necessary, to solicit additional proxies, in the event that there are not sufficient votes at the time of the special meeting to approve the merger.

The merger with Flushing Financial is more fully described in the attached proxy statement/prospectus, which you should read carefully and in its entirety before voting.

The board of directors of Atlantic Liberty has fixed _____, 2006 as the record date for determining the stockholders entitled to notice of and to vote at the special meeting. Only record holders of Atlantic Liberty common stock as of the close of business on that date will be entitled to vote at the special meeting or any adjournment or postponement of the special meeting. A list of stockholders entitled to vote at the special meeting will be available at Atlantic Liberty, 186 Montague Street, Brooklyn, New York, for ten days prior to the special meeting and also will be available at the special meeting.

The Atlantic Liberty board of directors has unanimously approved the merger and the merger agreement and unanimously recommends that you vote **FOR** approval of the merger and the transactions contemplated in the merger agreement.

Regardless of whether you plan to attend the special meeting, please complete, sign and return the enclosed proxy card promptly in the enclosed postage-paid envelope. If you hold your stock in _____ street name through a bank or broker, please direct your bank or broker to vote in accordance with the instructions you have received from your bank or broker. Your vote is important, regardless of the number of shares that you own. Voting by proxy will not prevent you from voting in person at Atlantic Liberty's special meeting, but will assure that your vote is counted if you are unable to attend.

By Order of the Board of Directors,

William M. Gilfillan

Corporate Secretary

Brooklyn, New York

_____, 2006

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IMPORTANT: A SELF-ADDRESSED ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE. NO POSTAGE IS REQUIRED IF MAILED WITHIN THE UNITED STATES.

Table of Contents**TABLE OF CONTENTS**

	Page
<u>ADDITIONAL INFORMATION</u>	iii
<u>QUESTIONS AND ANSWERS ABOUT THE VOTING PROCEDURES FOR THE SPECIAL MEETING</u>	1
<u>SUMMARY</u>	3
<u>SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA OF FLUSHING FINANCIAL CORPORATION</u>	11
<u>RISK FACTORS</u>	14
<u>Risks Related to the Merger</u>	14
<u>Risks About Flushing Financial</u>	16
<u>CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS</u>	19
<u>THE ATLANTIC LIBERTY SPECIAL MEETING</u>	20
<u>Matters to Be Considered</u>	20
<u>Proxies</u>	20
<u>Solicitation of Proxies</u>	21
<u>Record Date</u>	21
<u>Voting Rights and Vote Required</u>	21
<u>Recommendation of the Board of Directors</u>	22
<u>Attending the Special Meeting</u>	22
<u>Participants in Atlantic Liberty's and Atlantic Liberty Savings' Benefit Plans</u>	22
<u>Security Ownership of Certain Beneficial Owners of Atlantic Liberty</u>	23
<u>Beneficial Stock Ownership of Management</u>	24
<u>THE PROPOSED MERGER (Proposal One)</u>	25
<u>General</u>	25
<u>Background of the Merger</u>	25
<u>Atlantic Liberty's Reasons for the Merger; Recommendation of Atlantic Liberty's Board of Directors</u>	28
<u>Opinion of Atlantic Liberty's Financial Advisor</u>	29
<u>Flushing Financial's Reasons for the Merger</u>	38
<u>Merger Consideration: Cash or Stock Election</u>	39
<u>Election Procedures: Surrender of Stock Certificates</u>	40
<u>Treatment of Atlantic Liberty Stock Options</u>	42
<u>Employee Matters</u>	43
<u>Interests of Directors and Executive Officers in the Merger</u>	43
<u>Conduct of Business Pending the Merger</u>	46
<u>Representations and Warranties</u>	49
<u>Conditions to the Merger</u>	50
<u>Regulatory Approvals Required for the Merger</u>	51
<u>No Solicitation</u>	51
<u>Termination; Amendment; Waiver</u>	52
<u>Management and Operations After the Merger</u>	53
<u>Effective Date of Merger</u>	54
<u>Public Trading Markets</u>	54
<u>Flushing Financial Dividends</u>	54
<u>Fees and Expenses</u>	55
<u>Material United States Federal Income Tax Consequences of the Merger</u>	55
<u>Resale of Flushing Financial Common Stock</u>	58
<u>Accounting Treatment</u>	58
<u>Pending Litigation</u>	58
<u>Dissenters' Rights of Appraisal</u>	59
<u>Atlantic Liberty Stock Trading and Dividend Information</u>	63
<u>Flushing Financial Stock Trading and Dividend Information</u>	63

Table of Contents

<u>Comparison of Stockholders Rights for Existing Stockholders of Atlantic Liberty</u>	64
<u>Description of Capital Stock of Flushing Financial</u>	66
<u>Provisions of the Flushing Financial Certificate of Incorporation and Bylaws</u>	66
<u>Business Combinations with Interested Stockholders</u>	68
<u>Business Combination Statutes and Provisions</u>	69
<u>INFORMATION ABOUT FLUSHING FINANCIAL</u>	69
<u>INFORMATION ABOUT ATLANTIC LIBERTY</u>	69
<u>Management s Discussion and Analysis of Financial Condition and Results of Operations</u>	93
<u>ADJOURNMENT OF THE SPECIAL MEETING (Proposal Two)</u>	100
<u>OTHER MATTERS</u>	100
<u>Stockholder Proposals For 2006 Annual Meeting</u>	100
<u>Notice of Business to be Conducted at an Annual Meeting</u>	100
<u>EXPERTS</u>	101
<u>LEGAL OPINIONS</u>	101
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	101
APPENDICES:	
APPENDIX A	
<u>Agreement and Plan of Merger, dated as of December 20, 2005, by and between Flushing Financial Corporation and Atlantic Liberty Financial Corp.</u>	A-1
APPENDIX B	
<u>Delaware General Corporation Law Section 262</u>	B-1
APPENDIX C	
<u>Fairness Opinion dated December 20, 2005 of Sandler O Neill & Partners, L.P., financial advisor to Atlantic Liberty</u>	C-1
APPENDIX D	
<u>Atlantic Liberty Financial Corp. and Subsidiary Audited Consolidated Financial Statements as of March 31, 2005</u>	D-1
APPENDIX E	
<u>Atlantic Liberty Financial Corp. and Subsidiary Unaudited Consolidated Financial Statements as of December 31, 2005</u>	E-1

Table of Contents

QUESTIONS AND ANSWERS ABOUT THE VOTING PROCEDURES

FOR THE SPECIAL MEETING

Q: WHAT DO I NEED TO DO NOW?

A: After you have carefully read this proxy statement/prospectus, indicate on your proxy card how you want your shares to be voted, then sign and mail it in the enclosed postage-paid envelope as soon as possible so that your shares may be represented and voted at the Atlantic Liberty special meeting. If you sign and send in your proxy card and do not indicate how you want to vote, we will vote your shares in favor of the merger agreement and any other proposals to be voted on at the special meeting.

Q: WHY IS MY VOTE IMPORTANT?

A: The merger must be approved by the holders of a majority of the outstanding shares of Atlantic Liberty common stock entitled to vote at the Atlantic Liberty special meeting. Therefore, the failure of an Atlantic Liberty stockholder to vote, by proxy or in person, will have the same effect as a vote against the merger agreement. In addition, if you do not return your proxy card at or prior to the special meeting, it will be more difficult for Atlantic Liberty to obtain the necessary quorum to hold the special meeting.

Q: HOW DO I VOTE?

A: You can vote by mail. For this method you will need to complete, sign, date and return your proxy card in the postage-paid envelope provided. You can also vote in person at the special meeting. Even if you plan to attend the special meeting in person, please take the time to properly return the proxy card to ensure that your vote is counted.

Q: IF MY SHARES ARE HELD IN STREET NAME BY MY BROKER, WILL MY BROKER VOTE MY SHARES FOR ME?

A: No. Your broker cannot vote on the merger proposal on your behalf without specific instructions from you. Your broker will vote your shares on the merger proposal only if you provide instructions on how to vote. You should follow the directions provided by your broker. Your broker can vote your shares on all other proposals without your instructions.

Q: WHAT IF I FAIL TO INSTRUCT MY BROKER?

A: If you fail to instruct your broker how to vote your shares and the broker submits an unvoted proxy, the resulting broker non-vote will be counted toward a quorum at the special meeting, but it will have the same effect as a vote against the merger agreement.

Q: CAN I ATTEND THE SPECIAL MEETING AND VOTE MY SHARES IN PERSON?

A: Yes. All stockholders are invited to attend the special meeting. Stockholders of record can vote in person at the special meeting. If a broker holds your shares in street name, then you are not the stockholder of record and you must ask your broker how you can vote in person at the special meeting.

Q: CAN I CHANGE MY VOTE AFTER I HAVE MAILED MY SIGNED PROXY CARD?

A: Yes. If you have not voted through your broker, there are three ways for you to revoke your proxy and change your vote. First, you may send written notice to the Corporate Secretary of Atlantic Liberty stating that you would like to revoke your proxy. Second, you may complete and submit a new proxy card. Third, you may vote in person at the special meeting. If you have instructed a broker to vote your shares, you must follow the directions you receive from your broker to change your vote. Your last vote will be the vote that is counted.

Table of Contents

Q: SHOULD I SEND IN MY ATLANTIC LIBERTY STOCK CERTIFICATES NOW?

A: No. You should not send in your stock certificates at this time. Atlantic Liberty will separately send you an election form with instructions for exchanging your Atlantic Liberty stock certificates.

Q: WHEN DO YOU EXPECT TO MERGE?

A: We are working toward completing the merger as quickly as possible. We expect to complete the merger in the second quarter of 2006. However, we cannot assure you when or if the merger will occur. The approval of stockholders of Atlantic Liberty and all necessary regulatory approvals must be obtained prior to completing the merger.

Q: WHOM SHOULD I CALL WITH QUESTIONS OR TO OBTAIN ADDITIONAL COPIES OF THIS PROXY STATEMENT/PROSPECTUS?

A: You should contact:

Atlantic Liberty Financial Corp.

186 Montague Street

Brooklyn, New York 11201

Attention: William M. Gilfillan

Phone Number: (718) 855-3555

Table of Contents

SUMMARY

This is a summary of certain information regarding the proposed merger and the stockholder meeting to vote on the merger. It does not contain all of the information that may be important to you. We urge you to carefully read the entire document, including the Appendices, before deciding how to vote.

WHAT THIS DOCUMENT IS ABOUT

The boards of directors of Atlantic Liberty and Flushing Financial have unanimously approved the merger agreement between Atlantic Liberty and Flushing Financial pursuant to which Atlantic Liberty will merge with and into Flushing Financial. The merger cannot be completed unless the stockholders of Atlantic Liberty approve the merger. Atlantic Liberty's stockholders will vote on the merger at Atlantic Liberty's special meeting. This document is the proxy statement used by your board to solicit proxies for the special meeting. It is also the prospectus of Flushing Financial regarding the shares of Flushing Financial common stock to be issued to Atlantic Liberty stockholders if the merger is completed.

THE ATLANTIC LIBERTY SPECIAL MEETING

Date, Time and Place

Atlantic Liberty will hold its special meeting of stockholders to consider and vote on the merger at the main office of Atlantic Liberty Savings, F.A., 186 Montague Street, Brooklyn, New York, at 3:30 p.m., local time, on _____, 2006.

Record Date

The record date for stockholders entitled to vote at the special meeting of stockholders is _____, 2006. _____ shares of Atlantic Liberty common stock were outstanding on the record date and entitled to vote at the special meeting.

Vote Required

A majority of the outstanding shares of Atlantic Liberty common stock entitled to vote must be cast in favor of the merger for it to be approved. Therefore, your failure to vote, your failure to instruct your broker to vote your shares (a broker non-vote), or your abstaining from voting will have the same effect as a vote against the merger.

Approval of any adjournment of the special meeting may be obtained by the affirmative vote of the holders of a majority of the shares present in person or by proxy, even if less than a quorum. Because approval of such adjournment is based on the affirmative vote of a majority of shares present in person or by proxy, abstentions will have the same effect as a vote against this proposal.

As of the record date, the directors and executive officers of Atlantic Liberty and their affiliates beneficially owned _____ shares, or approximately _____ % of the outstanding shares of Atlantic Liberty common stock. Pursuant to voting agreements entered into at the time the merger agreement with Flushing Financial was signed, each director and executive officer of Atlantic Liberty has agreed, among other things, to vote or cause to be voted all shares over which they maintain sole or shared voting power in favor of approval and adoption of the merger agreement. As of the record date, none of the directors and executive officers of Flushing Financial or their affiliates beneficially owned any shares of Atlantic Liberty common stock.

Atlantic Liberty's board of directors has unanimously approved the merger agreement and unanimously recommends that Atlantic Liberty stockholders vote **FOR** the merger.

Table of Contents

THE COMPANIES

Flushing Financial Corporation

Flushing Financial, a Delaware corporation, is the holding company for Flushing Savings Bank, FSB. Flushing Savings Bank is a federally chartered savings bank that operates nine full-service banking offices in Queens, Brooklyn, Manhattan and Nassau County. The Federal Deposit Insurance Corporation insures the deposits of Flushing Savings Bank. At December 31, 2005, Flushing Financial had \$2.35 billion in total consolidated assets. Flushing Financial's principal executive offices are located at 1979 Marcus Avenue, Suite E140, Lake Success, New York 11042. Flushing Financial's telephone number is (718) 961-5400.

Atlantic Liberty Financial Corp.

Atlantic Liberty, a Delaware corporation, is the holding company for Atlantic Liberty Savings, F.A., a federally chartered savings association that operates two full-service banking offices in Brooklyn, New York. The Federal Deposit Insurance Corporation insures the deposits of Atlantic Liberty Savings. At December 31, 2005, Atlantic Liberty had \$177.0 million in total consolidated assets. Atlantic Liberty's principal executive offices are located at 186 Montague Street, Brooklyn, New York 11201. Atlantic Liberty's telephone number is (718) 855-3555.

THE MERGER

General Description

Atlantic Liberty will merge with and into Flushing Financial, with Flushing Financial as the surviving entity. The merger will be completed within five business days after all material conditions to closing have been met, unless Flushing Financial and Atlantic Liberty agree on a different closing date. A copy of the merger agreement is attached as Appendix A to this document and is incorporated by reference into this proxy statement/prospectus.

Consideration Payable to Atlantic Liberty Stockholders

Atlantic Liberty stockholders will be offered the opportunity to elect to receive merger consideration in the form of 1.43 shares of Flushing Financial common stock, \$24.00 in cash or a combination of Flushing Financial common stock and cash in exchange for each share of Atlantic Liberty common stock. However, because the merger agreement provides that 65% of the total number of shares of Atlantic Liberty common stock outstanding at the closing will be converted into Flushing Financial common stock and the remaining 35% of the outstanding shares will be converted into cash, an Atlantic Liberty stockholder may actually receive a combination of cash and shares of Flushing Financial common stock that is different than such stockholder elected, depending on the elections made by other Atlantic Liberty stockholders. All elections will be subject to the allocation and proration procedures described in the merger agreement. See *The Proposed Merger* Merger Consideration; Cash or Stock Election.

Election of Cash or Stock Consideration

No more than 40 days before the expected date of completion of the merger, Flushing Financial will send an election form to Atlantic Liberty stockholders that you may use to indicate whether your preference is to receive cash, Flushing Financial common stock or a combination of cash and Flushing Financial common stock, or whether you have no preference as to what you receive in exchange for your shares of Atlantic Liberty common stock. See *The Proposed Merger* Election Procedures; Surrender of Stock Certificates.

Table of Contents

Atlantic Liberty stockholders should not send in their stock certificates until they receive instructions from the Flushing Financial exchange agent.

The merger agreement contains allocation and proration provisions that are designed to ensure that 65% of the outstanding shares of common stock of Atlantic Liberty will be exchanged for shares of Flushing Financial common stock and the remaining 35% of the outstanding shares of common stock of Atlantic Liberty will be exchanged for cash.

Therefore, if the holders of more than 65% of the outstanding Atlantic Liberty common stock elect to receive Flushing Financial common stock for such shares, the amount of Flushing Financial common stock that each such stockholder would receive from Flushing Financial will be reduced on a pro rata basis. Under these circumstances, Atlantic Liberty stockholders will receive cash consideration for any Atlantic Liberty shares for which they do not receive Flushing Financial common stock.

Similarly, if the holders of more than 35% of the outstanding Atlantic Liberty common stock elect to receive cash for such shares, the amount of cash that each such stockholder would receive from Flushing Financial will be reduced on a pro rata basis. Under these circumstances, stockholders will receive Flushing Financial common stock for any Atlantic Liberty shares for which they do not receive cash.

The deadline for returning the election form is the close of business on the 20th day following the mailing date of the election form, not including the date of mailing, unless Atlantic Liberty and Flushing Financial mutually agree upon another deadline date. If you do not make an election, you will be allocated either cash or shares of Flushing Financial common stock, or a combination of cash and shares of Flushing Financial common stock, depending on the elections made by other Atlantic Liberty stockholders.

Comparative Market Prices and Share Information

Flushing Financial common stock is listed on the Nasdaq National Market under the symbol FFIC. Atlantic Liberty common stock is listed on the Nasdaq National Market under the symbol ALFC. The table below presents the per share closing prices of Flushing Financial's and Atlantic Liberty's common stock and the equivalent per share price for Atlantic Liberty common stock on (1) December 20, 2005, the last trading date before public announcement of the merger agreement, and on (2) _____, 2006, the latest practicable date before distribution of this proxy statement/prospectus.

Based on the closing price of \$16.70 per share of Flushing Financial common stock on December 20, 2005 and the exchange ratio of 1.43 shares of Flushing Financial common stock for each share of Atlantic Liberty common stock, the equivalent per share market value of each share of Atlantic Liberty common stock to be exchanged solely for Flushing Financial common stock would be \$23.88 per share, if you elect and receive all stock consideration. The equivalent per share market value of each share of Atlantic Liberty common stock to be exchanged solely for cash would be \$24.00, if you elect and receive all cash consideration. On _____, 2006, the closing price of Atlantic Liberty was \$ _____ per share. Based on the closing price of \$ _____ per share of Flushing Financial common stock on that date and the exchange ratio of 1.43 shares of Flushing Financial common stock for each share of Atlantic Liberty common stock, the equivalent per share market value of each share of Atlantic Liberty common stock to be exchanged solely for Flushing Financial common stock would be \$ _____ per share if you elect and receive all stock consideration. The equivalent per share market value of each share of Atlantic Liberty common stock to be exchanged solely for cash would be \$24.00, if you elect and receive all cash consideration. For more information about the exchange ratio, see The Proposed Merger Merger Consideration; Cash or Stock Election, and for more information about the stock prices and dividends of Flushing Financial and Atlantic Liberty, see The Proposed Merger Atlantic Liberty Stock Trading and Dividend Information and Flushing Financial Stock Trading and Dividend Information.

Table of Contents

	Last Reported Sale Price for Shares of		
	Flushing Financial Common Stock	Atlantic Liberty Common Stock	Equivalent Per Share Price
At December 20, 2005	\$16.70	\$28.02	\$23.88
, 2006	\$	\$	\$

The market price of Flushing Financial's and Atlantic Liberty's common stock will fluctuate between the date of this proxy statement/prospectus and the date on which the merger takes place, and Flushing Financial's common stock will also fluctuate after completion of the merger. Atlantic Liberty stockholders are advised to obtain current market quotations for Flushing Financial's common stock. No assurance can be given as to the market price of Flushing Financial's common stock at the time of the merger or thereafter.

Flushing Financial Dividends

In 2005, Flushing Financial paid a quarterly cash dividend of \$0.10 per share on its common stock. On February 21, 2006, Flushing Financial announced that it had increased its quarterly dividend by 10% to \$0.11 per share for the first quarter of 2006. Flushing Financial currently expects to continue to pay a quarterly cash dividend on its common stock. Although there is no present plan or intention to decrease these dividends, the payment and magnitude of any future dividends will be considered in light of changing opportunities to deploy capital effectively, operating trends, future income tax rates and general economic conditions, as well as various legal and regulatory limitations.

Dissenters' Rights for Atlantic Liberty Stockholders

Under Delaware General Corporation Law, holders of Atlantic Liberty common stock have the right to obtain an appraisal of the value of their shares of Atlantic Liberty common stock in connection with the merger. To perfect appraisal rights, an Atlantic Liberty stockholder must not vote for the adoption of the merger agreement and must strictly comply with all of the procedures required under Section 262 of the Delaware General Corporation Law. For more information on these procedures see "The Proposed Merger - Dissenters' Rights of Appraisal".

We have included a copy of the Delaware General Corporation Law - Section 262 - Appraisal Rights as Appendix B to this document.

Material Federal Income Tax Consequences of the Merger

The merger has been structured to qualify as a reorganization under Section 368(a) of the Internal Revenue Code of 1986, as amended, for U.S. federal income tax purposes. It is a condition to the obligations of the parties to complete the merger that Flushing Financial receive a legal opinion to the effect that the merger will so qualify. The consequences described below assume that, as expected, the merger will qualify as a tax-free reorganization for federal income tax purposes. The federal income tax consequences of the merger to you will depend on the form of consideration you receive in the merger.

If you receive solely Flushing Financial common stock in exchange for your Atlantic Liberty common stock, you will generally not recognize any gain or loss for federal income tax purposes (except with respect to cash received in lieu of any fractional shares). If you receive solely cash in exchange for your Atlantic Liberty common stock, you will generally recognize gain or loss in an amount equal to the difference between the amount of cash received and your tax basis in your shares of Atlantic Liberty common stock exchanged.

Table of Contents

If you receive a combination of Flushing Financial common stock and cash in exchange for your shares of Atlantic Liberty common stock, and your tax basis in your shares of Atlantic Liberty common stock is less than the sum of the amount of cash and the fair market value of the Flushing Financial common stock you receive, you generally will recognize gain in an amount equal to the lesser of:

- (1) the sum of the amount of cash and the fair market value of the Flushing Financial common stock you receive minus your tax basis in Atlantic Liberty common stock exchanged in the merger; or
- (2) the amount of cash that you receive in the merger.

However, if you receive a combination of Flushing Financial common stock and cash in exchange for your shares of Atlantic Liberty and you realize a loss because your tax basis in your shares of Atlantic Liberty common stock is greater than the sum of the amount of cash and the fair market value of the Flushing Financial common stock you receive, the loss will not be recognized for tax purposes until such time as you dispose of the shares you receive in the merger.

THE FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER TO YOU WILL DEPEND UPON YOUR OWN SITUATION. IN ADDITION, YOU MAY BE SUBJECT TO STATE, LOCAL OR FOREIGN TAX LAWS THAT ARE NOT DISCUSSED IN THIS DOCUMENT. YOU SHOULD CONSULT YOUR OWN TAX ADVISOR FOR A FULL UNDERSTANDING OF THE SPECIFIC TAX CONSEQUENCES OF THE MERGER TO YOU.

Treatment of Atlantic Liberty Stock Options

Each holder of an option to purchase a share of Atlantic Liberty common stock may have such option converted to options to purchase Flushing Financial common stock or cashed out. For Atlantic Liberty option holders who elect to have all or a portion of their options converted into options to purchase Flushing Financial common stock, the number of Flushing Financial shares to be subject to the new option will be equal to the product of (a) the exchange ratio of 1.43 and (b) the number of shares of Atlantic Liberty common stock subject to the Atlantic Liberty options being converted, rounded down to the nearest whole share. The exercise price per share of Flushing Financial common stock under the new option will be equal to the quotient of (i) the per share exercise price of the Atlantic Liberty option being converted and (ii) the exchange ratio of 1.43, rounded up to the next whole cent. The duration and other terms of the new option will be the same as the original Atlantic Liberty options being converted.

To the extent an Atlantic Liberty option holder does not elect to convert the options as described above, such options will be cancelled and will cease to be exercisable. In consideration for the cancellation, Flushing Financial will, with respect to each outstanding Atlantic Liberty option, pay to the holder an amount equal to the excess (if any) of \$24.00 over the exercise price of the outstanding Atlantic Liberty option, less any required tax withholding.

Reselling the Stock You Receive in the Merger

The shares of Flushing Financial common stock to be issued in the merger will be registered under the Securities Act of 1933, as amended. Except as noted below, stockholders may freely transfer those shares after they receive them. Atlantic Liberty has identified certain of its directors, executive officers and others who may be deemed affiliates of Atlantic Liberty, and those persons have entered into agreements with Flushing Financial restricting their ability to transfer the shares they will receive in the merger.

Differences in Stockholders' Rights

In the merger, each Atlantic Liberty stockholder who receives Flushing Financial common stock will become a Flushing Financial stockholder. The rights of Atlantic Liberty stockholders are currently governed by the Delaware General Corporation Law and Atlantic Liberty's certificate of incorporation and bylaws. The rights of Flushing Financial stockholders are currently governed by the Delaware General Corporation Law and Flushing Financial's certificate of incorporation and bylaws. There are differences in the rights of stockholders of Atlantic Liberty and Flushing Financial stockholders with respect to voting requirements and various other matters. See *The Proposed Merger Comparison of Stockholders Rights for Existing Stockholders of Atlantic Liberty*.

Table of Contents

Reasons for the Merger

Atlantic Liberty entered into the merger agreement at the conclusion of a process in which Atlantic Liberty determined that a merger with Flushing Financial was in the best interests of its stockholders. The Atlantic Liberty board of directors believes that the merger is fair to Atlantic Liberty stockholders and urges stockholders to vote **FOR** approval of the merger. See *The Proposed Merger Atlantic Liberty's Reasons for the Merger; Recommendation of Atlantic Liberty's Board of Directors* for a detailed discussion of Atlantic Liberty's reasons for the merger.

Opinion of Atlantic Liberty's Financial Advisor

Among other factors considered in deciding to approve the merger agreement, the board of directors of Atlantic Liberty considered the opinion of Sandler O'Neill & Partners, L.P., its financial advisor, provided to the Atlantic Liberty board of directors on December 20, 2005, that as of that date, and based on and subject to the assumptions made, matters considered and qualifications and limitations in its opinion, the per share merger consideration provided for in the merger agreement was fair from a financial point of view to holders of Atlantic Liberty common stock. This opinion was also confirmed in writing as of December 20, 2005, the date of the merger agreement. Holders of Atlantic Liberty common stock should carefully read Sandler O'Neill's opinion in its entirety. A copy of the full text of Sandler O'Neill's fairness opinion is included as Appendix C to this proxy statement/prospectus. Sandler O'Neill's opinion is not intended to be and does not constitute a recommendation to any holder of Atlantic Liberty common stock as to how such holder should vote in connection with the merger transaction. See *The Proposed Merger Opinion of Atlantic Liberty's Financial Advisor*.

Pursuant to an engagement letter between Atlantic Liberty and Sandler O'Neill, Atlantic Liberty agreed to pay Sandler O'Neill a fee, the principal portion of which is payable upon completion of the merger. In addition, Atlantic Liberty has paid Sandler O'Neill a fee of \$125,000 in connection with rendering its opinion.

Financial Interests of Atlantic Liberty's Directors and Executive Officers in the Merger

Atlantic Liberty's directors and executive officers have financial interests in the merger that are in addition to their interests as stockholders. The Atlantic Liberty board of directors considered these interests in deciding to approve the merger agreement. Amendments to the Atlantic Liberty Savings Directors' Retirement Plan provide that at the effective time of the Merger, Atlantic Liberty Savings will pay amounts due to each participating director, either in a lump sum or in installments over five years. Messrs. Barry M. Donohue and William M. Gilfillan, executive officers of Atlantic Liberty, will also be compensated by Flushing Financial in exchange for the respective non-competition agreements each entered into as of December 20, 2005, which provide that for a period of two years following the effective time of the merger, each is restricted from directly or indirectly being associated with any business whose products or activities compete with the products or activities of Flushing Financial or its subsidiaries within a 25 mile radius of the offices of Flushing Financial or any of its subsidiaries. In addition, Messrs. Donohue and Gilfillan have entered into letter agreements quantifying payments to them in lieu of payments under their respective employment agreements with Atlantic Liberty and Atlantic Liberty Savings. Messrs. Donohue and Gilfillan will also enter into Termination Agreements and Releases with Atlantic Liberty, Atlantic Liberty Savings, Flushing Financial and Flushing Savings Bank at the effective time of the merger, which provide that in consideration of a payment by Atlantic Liberty or Atlantic Liberty Savings to Messrs. Donohue and Gilfillan, respectively, their respective employment agreements with Atlantic Liberty and Atlantic Liberty Savings and all the Addenda to such employment agreements will be terminated. However, the amounts payable under these agreements are not greater than the amounts that would otherwise be payable to Mr. Donohue and Mr. Gilfillan under their respective employment agreements in the event of a change in control and termination of employment. See *The Proposed Merger Interests of Directors and Executive Officers in the Merger*.

Flushing Financial has agreed to indemnify the directors and officers of Atlantic Liberty and Atlantic Liberty Savings against certain liabilities following the merger. Flushing Financial has also agreed to provide directors' and officers' liability insurance for a period of six years following the merger.

Table of Contents

Conditions to the Merger

Completion of the merger is contingent on a number of customary conditions, including approval of the merger agreement by Atlantic Liberty stockholders at the special meeting and receipt of the required regulatory approvals. See "The Proposed Merger" Conditions to the Merger.

Regulatory Approvals

The merger and related transactions are subject to the approval of the Office of Thrift Supervision. We have filed the applications required to obtain the necessary regulatory approval. As of the date of this document, we have not received the required approval. Approval by the Office of Thrift Supervision does not constitute an endorsement of the merger or a determination that the terms of the merger are fair to Atlantic Liberty stockholders.

Terminating the Merger Agreement

The merger agreement may be terminated at any time prior to completion by mutual written agreement of Flushing Financial and Atlantic Liberty, or by either party in the following circumstances:

if the other party materially breaches the merger agreement and does not cure such breach within 30 days after written notice thereof;

if the required regulatory approvals are denied (and the denial is final and nonappealable);

if the merger has not been completed by July 15, 2006, or such later date agreed to in writing by Flushing Financial and Atlantic Liberty, unless the failure to complete the merger by that date is due to the terminating party's failure to abide by the merger agreement;

if the vote of stockholders of Atlantic Liberty is not sufficient to approve the merger agreement; or

if the conditions precedent to the obligations of that party cannot be satisfied or fulfilled by July 15, 2006.

In addition, Flushing Financial may terminate the merger agreement if, among other things, Atlantic Liberty receives a superior proposal (as defined in the merger agreement) and enters into an agreement with respect to such proposal. Atlantic Liberty may also terminate the merger agreement if it receives a superior proposal that it determines to accept, subject to giving Flushing Financial an opportunity to make such adjustments in the terms and conditions of the merger agreement as would enable Atlantic Liberty to proceed with the merger on such adjusted terms.

The merger agreement also may be terminated by Atlantic Liberty if the average of the daily closing sales prices of Flushing Financial common stock for the five business-day period commencing on the date of final regulatory approval of the merger both (i) is less than 85% of the average of the daily closing sales prices of Flushing Financial common stock for the 20 consecutive trading days immediately preceding the public announcement of the merger agreement and (ii) declines by 15% or more compared to a group of its peers specified in the merger agreement.

If Atlantic Liberty elects to exercise this termination right, it must give prompt written notice to Flushing Financial, which will have the option to increase the consideration to be received by the holders of Atlantic Liberty common stock who elect to receive Flushing Financial common stock by adjusting the ratio of Flushing Financial shares to be received for each Atlantic Liberty share pursuant to either of two formulas prescribed in the merger agreement, in which case no termination will be deemed to have occurred.

Atlantic Liberty will be required to pay a termination fee in the amount of \$2.5 million to Flushing Financial if: (i) either Atlantic Liberty or Flushing Financial exercises its right to terminate the merger agreement in connection with the receipt of a superior proposal by Atlantic Liberty; or (ii) Atlantic Liberty enters into another merger agreement within 12 months after (a) the termination of the merger agreement by Flushing Financial because of a willful breach by Atlantic Liberty or (b) the failure of Atlantic Liberty stockholders to approve the merger

Table of Contents

agreement after the occurrence of the acquisition proposal related to the other merger agreement. However, in December 2005, two complaints were filed in Court of Chancery of the State of Delaware in and for New Castle County, and each named Atlantic Liberty, each of Atlantic Liberty's directors, two of Atlantic Liberty's executive officers (its President and Chief Executive Officer and its Executive Vice President and Chief Financial Officer) and Flushing Financial as defendants in proposed class action lawsuits. In connection with these lawsuits, following the production of documents and two depositions, Atlantic Liberty, Flushing Financial and the plaintiffs discussed the possibility of entering into a settlement agreement that would, in part, reduce the dollar amount of the termination fee payable to Flushing Financial by Atlantic Liberty pursuant to the merger agreement, from \$2.5 million to \$2.0 million and would give each of the plaintiffs the opportunity to comment on the disclosures in this proxy statement/prospectus. On April 6, 2006, the parties entered into a Stipulation and Agreement of Compromise, Settlement and Release to that effect, which stipulation is subject to the approval of the Delaware Court of Chancery. See "The Proposed Merger Pending Litigation."

Flushing Financial will be required to pay a termination fee in the amount of \$1.0 million to Atlantic Liberty if Atlantic Liberty terminates the agreement because of a willful breach by Flushing Financial.

Amending the Merger Agreement

Subject to applicable law, the merger agreement may be amended by Flushing Financial and Atlantic Liberty at any time prior to the completion of the merger. However, an amendment that reduces the amount or value, or changes the form of the merger consideration payable to Atlantic Liberty stockholders cannot be made following adoption of the merger agreement by Atlantic Liberty stockholders without their approval.

Accounting Treatment of the Merger

Flushing Financial will account for the merger as a purchase for financial reporting purposes. As a result, the recorded assets and liabilities of Flushing Financial will be carried forward at their recorded amounts, the historical operating results will be unchanged for the prior periods being reported on and the assets and liabilities from the acquisition of Atlantic Liberty will be adjusted to their fair value at the date of the merger. The excess of the purchase price over the net assets acquired will be recorded as goodwill. Goodwill resulting from the merger will not be amortized, but will be reviewed for impairment annually. Core deposit and other intangibles with finite useful lives will be recorded at fair value and included as part of the net assets acquired. See "The Proposed Merger Accounting Treatment."

Atlantic Liberty has Agreed Not to Solicit Alternative Transactions

In the merger agreement, Atlantic Liberty has agreed not to directly or indirectly initiate, solicit or knowingly encourage any inquiries, negotiate with, or provide any information to any person other than Flushing Financial concerning an acquisition transaction involving Atlantic Liberty or Atlantic Liberty Savings. However, before the special meeting of Atlantic Liberty stockholders, Atlantic Liberty may enter into discussions or negotiations with a person or entity that makes an unsolicited proposal concerning an acquisition transaction, if its board of directors determines in good faith that the proposal, if consummated, is reasonably likely to result in a more favorable transaction to Atlantic Liberty's stockholders from a financial point of view than the merger, that they must do so in order to properly discharge their fiduciary duties following consultation with their legal counsel, and Atlantic Liberty promptly notifies Flushing Financial of the inquiries, proposals or offers received.

Table of Contents**SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA OF FLUSHING FINANCIAL CORPORATION**

The following tables set forth selected consolidated historical financial and other data of Flushing Financial for the periods and at the dates indicated. The information in the tables is derived in part from and should be read together with the audited consolidated financial statements and notes thereto included in Flushing Financial's Annual Report on Form 10-K for the year ended December 31, 2005, which is incorporated by reference into this proxy statement/prospectus. See [Where You Can Find More Information](#).

At or for the years ended December 31,	2005	2004	2003	2002	2001
	(Dollars in thousands, except per share data)				
Selected Financial Condition Data					
Total assets	\$ 2,353,208	\$ 2,058,044	\$ 1,910,751	\$ 1,652,958	\$ 1,487,529
Loans, net	1,881,876	1,516,507	1,269,521	1,169,560	1,067,197
Securities available for sale	337,761	435,745	535,709	358,984	305,539
Real estate owned, net					93
Deposits	1,467,287	1,292,797	1,169,909	1,011,825	828,582
Borrowed funds	689,710	584,736	578,142	493,164	513,435
Stockholders' equity	176,467	160,653	146,762	131,386	133,387
Book value per share ⁽¹⁾⁽²⁾	\$ 9.07	\$ 8.35	\$ 7.61	\$ 6.95	\$ 6.59
Selected Operating Data					
Interest and dividend income	\$ 132,439	\$ 118,724	\$ 112,339	\$ 106,906	\$ 101,899
Interest expense	64,229	52,233	52,176	54,564	59,702
Net interest income	68,210	66,491	60,163	52,342	42,197
Provision for loan losses					
Net interest income after provision for loan losses	68,210	66,491	60,163	52,342	42,197
Non-interest income:					
Net (losses) gains on sales of securities and loans	(45)	206	329	(4,158)	321
Other income	6,692	5,737	5,956	5,667	5,737
Total non-interest income	6,647	5,943	6,285	1,509	6,058
Non-interest expense	36,264	35,389	31,226	27,621	24,457
Income before income tax provision	38,593	37,045	35,222	26,230	23,798
Income tax provision	15,051	14,396	13,544	9,967	8,869
Net income	\$ 23,542	\$ 22,649	\$ 21,678	\$ 16,263	\$ 14,929
Basic earnings per share ⁽²⁾⁽³⁾					
Basic earnings per share	\$ 1.34	\$ 1.30	\$ 1.27	\$ 0.93	\$ 0.81
Diluted earnings per share ⁽²⁾⁽³⁾					
Diluted earnings per share	\$ 1.31	\$ 1.25	\$ 1.22	\$ 0.90	\$ 0.78
Dividends declared per share ⁽²⁾					
Dividends declared per share	\$ 0.40	\$ 0.35	\$ 0.28	\$ 0.24	\$ 0.21
Dividend payout ratio	29.9%	26.9%	22.0%	25.7%	25.4%

(Footnotes on the following page)

Table of Contents

At or for the years ended December 31,	2005	2004	2003	2002	2001
Selected Financial Ratios and Other Data					
Performance ratios:					
Return on average assets	1.07%	1.13%	1.21%	1.03%	1.06%
Return on average equity	14.27	14.97	15.93	12.57	11.52
Average equity to average assets	7.47	7.56	7.57	8.22	9.19
Equity to total assets	7.50	7.81	7.68	7.95	8.97
Interest rate spread	3.03	3.30	3.37	3.32	2.89
Net interest margin	3.24	3.49	3.56	3.55	3.20
Non-interest expense to average assets	1.64	1.77	1.74	1.76	1.74
Efficiency ratio	48.03	48.79	47.00	47.41	50.06
Average interest-earning assets to average interest-bearing liabilities	1.07x	1.07x	1.06x	1.06x	1.07x
Regulatory capital ratios: ⁽⁴⁾					
Tangible capital	7.14%	7.89%	8.00%	7.74%	7.32%
Core capital	7.14	7.89	8.00	7.74	7.32
Total risk-based capital	12.12	14.01	15.12	14.27	13.58
Asset quality ratios:					
Non-performing loans to gross loans ⁽⁵⁾	0.13%	0.06%	0.05%	0.31%	0.22%
Non-performing assets to total assets ⁽⁶⁾	0.10	0.04	0.04	0.26	0.16
Net charge-offs to average loans	0.01				0.01
Allowance for loan losses to gross loans	0.34	0.43	0.51	0.56	0.61
Allowance for loan losses to total non-performing assets ⁽⁶⁾	260.39	717.29	960.86	153.34	272.94
Allowance for loan losses to total non-performing loans ⁽⁵⁾	260.39	717.29	960.86	183.23	283.85
Full-service customer facilities	9	10	11	10	10

⁽¹⁾ Calculated by dividing stockholders' equity of \$176.5 million and \$160.7 million at December 31, 2005 and 2004, respectively, by 19,465,844 and 19,232,248 shares outstanding at December 31, 2005 and 2004, respectively.

⁽²⁾ Per share data has been adjusted for the three-for-two stock split distributed on December 15, 2003 in the form of a stock dividend.

⁽³⁾ The shares held in Flushing Financial's Employee Benefit Trust are not included in shares outstanding for purposes of calculating earnings per share. Unvested restricted stock and unvested restricted stock unit awards are not included in basic earnings per share calculations, but are included in diluted earnings per share calculations.

⁽⁴⁾ Flushing Savings Bank exceeded all minimum regulatory capital requirements during the periods presented.

⁽⁵⁾ Non-performing loans consist of non-accrual loans and loans delinquent 90 days or more that are still accruing.

⁽⁶⁾ Non-performing assets consist of non-performing loans, real estate owned and non-performing investment securities.

Table of Contents**COMPARATIVE PER SHARE DATA**

The table below summarizes selected per share information about Flushing Financial and Atlantic Liberty. Flushing Financial per share information is presented on a historical basis and on a pro forma adjusted basis to reflect the acquisition of Atlantic Liberty. The Atlantic Liberty per share information is presented on a historical and on a pro forma equivalent basis to reflect the acquisition.

The data in the table should be read together with the financial information and the financial statements of Flushing Financial incorporated by reference into this document and of Atlantic Liberty included in Appendix D and Appendix E to this document. The pro forma per common share data is presented as an illustration only. The data does not necessarily indicate the combined financial position per share or combined results of operations per share that would have been reported if the acquisition had occurred when indicated, nor is the data a forecast of the combined financial position or combined results of operations for any future period. No pro forma adjustments have been included herein which reflect potential effects of cost savings or synergies that may be obtained by combining the operations of Flushing Financial and Atlantic Liberty or the costs of combining the companies and their operations.

	Flushing Financial	Atlantic Liberty	Pro	Per
	Historical	Historical	Forma	Equivalent
			Adjusted	Atlantic
				Liberty
				Share (1)
Book value per share at December 31, 2005	\$ 9.07	\$ 16.63	\$ 9.65	\$ 13.80
Cash dividends paid per share for the year ended December 31, 2005	\$ 0.40	\$ 0.30	\$ 0.39	\$ 0.56
Basic earnings per share for the year ended December 31, 2005	\$ 1.34	\$ 0.31	\$ 1.26	\$ 1.80
Diluted earnings per share for the year ended December 31, 2005	\$ 1.31	\$ 0.30	\$ 1.23	\$ 1.76

⁽¹⁾ Per equivalent share of Atlantic Liberty's common stock is calculated by taking the product of the pro forma combined and an exchange ratio of 1.43.

Table of Contents

RISK FACTORS

In addition to the other information contained in or incorporated by reference into this proxy statement/prospectus, you should carefully consider the following risk factors in deciding whether to vote for adoption of the merger agreement.

Risks Related to the Merger

Because the Market Price of Flushing Financial Common Stock May Fluctuate, You Cannot Be Sure of the Value of the Stock Portion of the Merger Consideration That You Will Receive.

Upon completion of the merger, each share of Atlantic Liberty common stock will be converted into merger consideration consisting of shares of Flushing Financial common stock or cash or both pursuant to the terms of the merger agreement. The market value of the stock portion of the merger consideration may vary from the closing price of Flushing Financial common stock on the date we announced the merger, on the date that this document was mailed to Atlantic Liberty stockholders, on the date of the special meeting of the Atlantic Liberty stockholders and on the date we complete the merger and thereafter. Any change in the market value of Flushing Financial common stock prior to completion of the merger will affect the value of the stock portion of the merger consideration that Atlantic Liberty stockholders will receive upon completion of the merger. Accordingly, at the time of the special meeting, Atlantic Liberty stockholders will not know or be able to calculate the market value of the stock portion of the merger consideration they would receive upon completion of the merger. Stock price changes may result from a variety of factors, including general market and economic conditions, changes in our business, operations and prospects, and regulatory considerations. Many of these factors are beyond our control. You should obtain current market quotations for shares of Flushing Financial common stock and for shares of Atlantic Liberty common stock.

You May Not Receive the Form of Merger Consideration that You Elect.

The merger agreement contains provisions that are designed to ensure that 35% of the outstanding shares of Atlantic Liberty common stock are exchanged for cash and the other 65% of the Atlantic Liberty shares are exchanged for shares of Flushing Financial common stock. If elections are made by Atlantic Liberty stockholders that would otherwise result in more or less than 65% of such shares being converted into Flushing Financial stock, either those electing to receive all or a portion of their consideration in cash or those electing to receive all or a portion of their consideration in shares of Flushing Financial common stock, will have the consideration of the type they selected reduced by a pro rata amount and will receive a portion of their consideration in the form that they did not elect to receive. Accordingly, there is a risk that you will not receive a portion of the merger consideration in the form that you elect, which could result in, among other things, tax consequences that differ from those that would have resulted had you received the form of consideration you elected (including the recognition of gain for federal income tax purposes with respect to the cash received). If you do not make an election, you will be deemed to have made an election to receive the merger consideration in such form of cash and/or shares of common stock as Flushing Financial shall determine.

Flushing Financial May Fail to Realize the Anticipated Benefits of the Merger.

The success of the merger will depend on, among other things, Flushing Financial's ability to realize anticipated cost savings and to combine the businesses of Flushing Savings Bank and Atlantic Liberty Savings in a manner that does not materially disrupt the existing customer relationships of Flushing Savings Bank or Atlantic Liberty Savings or result in decreased revenues from any loss of customers. If Flushing Financial is not able to successfully achieve these objectives, the anticipated benefits of the merger may not be realized fully or at all or may take longer to realize than expected.

Flushing Financial and Atlantic Liberty have operated and, until the completion of the merger, will continue to operate, independently. It is possible that the integration process could result in the loss of key employees, the disruption of Flushing Financial's or Atlantic Liberty's ongoing businesses or inconsistencies in

Table of Contents

standards, controls, procedures and policies that adversely affect the ability of Flushing Financial to maintain relationships with customers and employees or to achieve the anticipated benefits of the merger.

The Market Price of Flushing Financial Common Stock after the Merger May Be Affected by Factors Different from Those Affecting the Shares of Atlantic Liberty or Flushing Financial Currently.

The businesses of Flushing Financial and Atlantic Liberty differ in important respects and, accordingly, the results of operations of the combined company and the market price of the combined company's shares of common stock may be affected by factors different from those currently affecting the independent results of operations of Atlantic Liberty. For a discussion of the businesses of Flushing Financial and Atlantic Liberty and of certain factors to consider in connection with those businesses, see the Flushing Financial documents incorporated by reference in this document and referred to under "Where You Can Find More Information" and the information regarding Atlantic Liberty set forth in this document under "Information About Atlantic Liberty."

The Opinion Obtained by Atlantic Liberty from its Financial Advisor Will Not Reflect Changes in Circumstances between Signing the Merger Agreement and the Merger.

Atlantic Liberty has not obtained an updated opinion from its financial advisor as of the date of this document. Changes in the operations and prospects of Flushing Financial or Atlantic Liberty, general market and economic conditions and other factors which may be beyond the control of Flushing Financial and Atlantic Liberty, and on which the financial advisor's opinion was based, may significantly alter the value of Flushing Financial or Atlantic Liberty or the prices of shares of Flushing Financial common stock or Atlantic Liberty common stock by the time the merger is completed. The opinion does not speak as of the time the merger will be completed or as of any date other than the date of such opinion. Because Atlantic Liberty currently does not anticipate asking its financial advisor to update its opinion, the opinion will not address the fairness of the merger consideration, from a financial point of view, at the time the merger is completed. For a description of the opinion that Atlantic Liberty received from its financial advisor, please refer to "The Proposed Merger - Opinion of Atlantic Liberty's Financial Advisor." For a description of the other factors considered by Atlantic Liberty's board of directors in determining to approve the merger, please refer to "The Proposed Merger - Atlantic Liberty's Reasons for the Merger; Recommendation of Atlantic Liberty's Board of Directors."

The Merger is Subject to the Receipt of Approval from a Governmental Entity that May Impose Conditions that Could Have an Adverse Effect on Flushing Financial.

Before the merger may be completed, approval must be obtained from the Office of Thrift Supervision. This governmental entity may impose conditions on the completion of the merger or require changes to the terms of the merger. Although Flushing Financial and Atlantic Liberty do not currently expect that any such conditions or changes would be imposed, there can be no assurance that they will not be, and such conditions or changes could have the effect of delaying completion of the merger or imposing additional costs on or limiting the revenues of Flushing Financial following the merger, any of which might have a material adverse effect on Flushing Financial following the merger. Flushing Financial is not obligated to complete the merger if the regulatory approvals received in connection with the completion of the merger include any conditions or restrictions that, in the aggregate, would reasonably be expected to have a material adverse effect on Flushing Financial if the merger is completed, but Flushing Financial could choose to waive this condition.

Atlantic Liberty Directors and Executive Officers Have Interests in the Merger that are Different from, or in Addition to, Those of a Stockholder.

Executive officers of Atlantic Liberty negotiated the terms of the merger agreement with their counterparts at Flushing Financial, and the board of directors of Atlantic Liberty approved the merger agreement and is recommending that Atlantic Liberty stockholders vote for the merger agreement. In considering these facts and the other information contained in this proxy statement/prospectus, you should be aware that Atlantic Liberty's executive officers and directors have financial interests in the merger that are different from, or in addition to, the interests of Atlantic Liberty stockholders. For example, certain executive officers have entered into agreements with Atlantic Liberty that provide for, among other things, severance and other benefits following the merger. In addition, certain executive officers have entered into agreements that provide for cash payments in exchange for

Table of Contents

their commitment not to compete with Flushing Financial, for a period of time. These and some other additional interests of Atlantic Liberty directors and executive officers may create potential conflicts of interest and cause some of these persons to view the proposed transaction differently than you may view it, as a stockholder. Please see *The Proposed Merger* *Interests of Directors and Executive Officers in the Merger* for more information about these financial interests.

Atlantic Liberty Stockholders Who Make Elections Must Include Their Stock Certificates With Their Election Forms and, Therefore, Will Be Unable to Sell Their Shares in the Market After Making Their Election.

Atlantic Liberty stockholders may elect to receive the merger consideration in the form of cash or stock, or both. Stockholders making an election must turn in their Atlantic Liberty stock certificates with their election form. During the time between when the election is made and when Flushing Financial stock certificates are received by stockholders following the completion of the merger, Atlantic Liberty stockholders who make an election will not have possession of their stock certificates and, therefore, will be unable to sell their Atlantic Liberty common stock, unless they revoke their election before the election deadline. If the merger is unexpectedly delayed, this period could extend for a significant period of time. Elections received after the close of the election period will not be accepted or honored.

Risks About Flushing Financial

Effect of Interest Rates

Like most financial institutions, Flushing Financial's results of operations depend to a large degree on its net interest income. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets, a significant increase in market interest rates could adversely affect net interest income. Conversely, a significant decrease in market interest rates could result in increased net interest income. As a general matter, Flushing Financial seeks to manage its business to limit its overall exposure to interest rate fluctuations. However, fluctuations in market interest rates are neither predictable nor controllable and may have a material adverse impact on the operations and financial condition of Flushing Financial. Additionally, in a rising interest rate environment, a borrower's ability to repay adjustable rate mortgages can be negatively affected as payments increase at repricing dates.

Prevailing interest rates also affect the extent to which borrowers repay and refinance loans. In a declining interest rate environment, the number of loan prepayments and loan refinancings may increase, as well as prepayments of mortgage-backed securities. Call provisions associated with Flushing Financial's investment in U.S. Government agency and corporate securities may also adversely affect yield in a declining interest rate environment. Such prepayments and calls may adversely affect the yield of Flushing Financial's loan portfolio and mortgage-backed and other securities as Flushing Financial reinvests the prepaid funds in a lower interest rate environment. However, Flushing Financial typically receives additional loan fees when existing loans are refinanced, which partially offset the reduced yield on Flushing Financial's loan portfolio resulting from prepayments. In periods of low interest rates, Flushing Financial's level of core deposits also may decline if depositors seek higher-yielding instruments or other investments not offered by Flushing Financial, which in turn may increase Flushing Financial's cost of funds and decrease its net interest margin to the extent alternative funding sources are utilized. An increasing interest rate environment would tend to extend the average lives of lower yielding fixed rate mortgages and mortgage-backed securities, which could adversely affect net interest income. In addition, depositors tend to open longer term, higher costing certificate of deposit accounts which could adversely affect Flushing Savings Bank's net interest income if rates were to subsequently decline. Additionally, adjustable rate mortgage loans and mortgage-backed securities generally contain interim and lifetime caps that limit the amount the interest rate can increase or decrease at repricing dates. Significant increases in prevailing interest rates may significantly affect demand for loans and the value of bank collateral.

Lending Activities

Multi-family residential, commercial real estate and one- to four-family mixed-use property mortgage loans, the increased origination of which is part of management's strategy, and construction loans, are generally viewed as exposing the lender to a greater risk of loss than fully underwritten one- to four-family residential

Table of Contents

mortgage loans and typically involve higher principal amounts per loan. Repayment of multi-family residential, commercial real estate and one- to four-family mixed-use property mortgage loans generally is dependent, in large part, upon sufficient income from the property to cover operating expenses and debt service. Repayment of construction loans is contingent upon the successful completion and operation of the project. Changes in local economic conditions and government regulations, which are outside the control of the borrower or lender, also could affect the value of the security for the loan or the future cash flow of the affected properties.

In addition, Flushing Savings Bank, from time to time, originates one- to four-family residential mortgage loans without verifying the borrower's level of income. These loans involve a higher degree of risk as compared to Flushing Savings Bank's other fully underwritten one- to four-family residential mortgage loans. These risks are mitigated by Flushing Savings Bank's policy to limit the amount of one- to four-family residential mortgage loans to 80% of the appraised value or sales price, whichever is less, as well as charging a higher interest rate than when the borrower's income is verified. These loans are not as readily saleable in the secondary market as Flushing Savings Bank's other fully underwritten loans, either as whole loans or when pooled or securitized.

There can be no assurance that Flushing Savings Bank will be able to successfully implement its business strategies with respect to these higher-yielding loans. In assessing the future earnings prospects of Flushing Savings Bank, investors should consider, among other things, Flushing Savings Bank's level of origination of one- to four-family residential mortgage loan originations (including loans originated without verifying the borrower's income), Flushing Savings Bank's emphasis on multi-family residential, commercial real estate and one- to four-family mixed-use property mortgage loans, and the greater risks associated with such loans.

Competition

Flushing Savings Bank faces intense and increasing competition both in making loans and in attracting deposits. Flushing Savings Bank's market area has a high density of financial institutions, many of which have greater financial resources, name recognition and market presence than Flushing Savings Bank, and all of which are competitors of Flushing Savings Bank to varying degrees. Particularly intense competition exists for deposits and in all of the lending activities emphasized by Flushing Savings Bank. Flushing Savings Bank's competition for loans comes principally from commercial banks, other savings banks, savings and loan associations, mortgage banking companies, insurance companies, finance companies and credit unions. Management anticipates that competition for mortgage loans will continue to increase in the future. Flushing Savings Bank's most direct competition for deposits historically has come from other savings banks, commercial banks, savings and loan associations and credit unions. In addition, Flushing Savings Bank faces competition for deposits from products offered by brokerage firms, insurance companies and other financial intermediaries, such as money market and other mutual funds and annuities. Consolidation in the banking industry and the lifting of interstate banking and branching restrictions have made it more difficult for smaller, community-oriented banks, such as Flushing Savings Bank, to compete effectively with large, national, regional and super-regional banking institutions. Notwithstanding the intense competition, Flushing Savings Bank has been successful in increasing its loan portfolios and deposit base. However, no assurances can be given that Flushing Savings Bank will be able to continue to increase its loan portfolios and deposit base, as contemplated by management's current business strategy.

Local Economic Conditions

Flushing Financial's operating results are affected by national and local economic and competitive conditions, including changes in market interest rates, the strength of the local economy, government policies and actions of regulatory authorities. During 2005, the nation's economy was generally considered to be expanding. Yet world events, particularly the War on Terror and the level of oil prices, continued to have an effect on the economic recovery. However, changes in economic conditions can result in borrowers defaulting on their loans, or withdrawing their funds on deposit at Flushing Savings Bank to meet their financial obligations. While Flushing Financial has not seen a significant increase in delinquent loans, and has seen an increase in deposits, Flushing Financial cannot predict the effect of these economic conditions on Flushing Financial's financial condition or operating results.

A decline in the local economy, national economy or metropolitan area real estate market could adversely affect the financial condition and results of operations of Flushing Financial, including through decreased demand

Table of Contents

for loans or increased competition for good loans, increased non-performing loans and loan losses and resulting additional provisions for loan losses and for losses on real estate owned. Although management of Flushing Savings Bank believes that the current allowance for loan losses is adequate in light of current economic conditions, many factors could require additions to the allowance for loan losses in future periods above those currently maintained. These factors include: (1) adverse changes in economic conditions and changes in interest rates that may affect the ability of borrowers to make payments on loans, (2) changes in the financial capacity of individual borrowers, (3) changes in the local real estate market and the value of Flushing Savings Bank's loan collateral, and (4) future review and evaluation of Flushing Savings Bank's loan portfolio, internally or by regulators. The amount of the allowance for loan losses at any time represents good faith estimates that are susceptible to significant changes due to changes in appraisal values of collateral, national and regional economic conditions, prevailing interest rates and other factors.

Legislation and Proposed Changes

From time to time, legislation is enacted or regulations are promulgated that have the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial institutions. Proposals to change the laws and regulations governing the operations and taxation of banks and other financial institutions are frequently made in Congress, in the New York legislature and before various bank regulatory agencies. No prediction can be made as to the likelihood of any major changes or the impact such changes might have on Flushing Savings Bank or Flushing Financial.

Certain Anti-Takeover Provisions

On September 17, 1996, Flushing Financial adopted a Stockholder Rights Plan (the Rights Plan) designed to preserve long-term values and protect stockholders against stock accumulations and other abusive tactics to acquire control of Flushing Financial. Under the Rights Plan, each stockholder of record at the close of business on September 30, 1996 received a dividend distribution of one right to purchase from Flushing Financial one-three-hundred-thirty-seventh-and-one-half of a share of a new series of junior participating preferred stock at a price of \$64, subject to certain adjustments. The rights will become exercisable only if any person or group acquires 15% or more of Flushing Financial's common stock or commences a tender or exchange offer which, if consummated, would result in that person or group owning at least 15% of the Flushing Financial common stock (the acquiring person or group). In such case, all stockholders other than the acquiring person or group will be entitled to purchase, by paying the \$64 exercise price, common stock (or a common stock equivalent) with a value of twice the exercise price. In addition, at any time after such event, and prior to the acquisition by any person or group of 50% or more of the common stock, the board of directors may, at its option, require each outstanding right (other than rights held by the acquiring person or group) to be exchanged for one share of common stock (or one common stock equivalent). The rights expire on September 30, 2006.

The Rights Plan, as well as certain provisions of Flushing Financial's certificate of incorporation and bylaws, Flushing Savings Bank's federal stock charter and bylaws, certain federal regulations and provisions of Delaware corporation law, and certain provisions of remuneration plans and agreements applicable to employees and officers of Flushing Savings Bank may have anti-takeover effects by discouraging potential proxy contests and other takeover attempts, particularly those which have not been negotiated with the board of directors. The Rights Plan and those other provisions, as well as applicable regulatory restrictions, may also prevent or inhibit the acquisition of a controlling position in the common stock and may prevent or inhibit takeover attempts that certain stockholders may deem to be in their or other stockholders' interest or in the interest of Flushing Financial, or in which stockholders may receive a substantial premium for their shares over then current market prices. The Rights Plan and those other provisions may also increase the cost of, and thus discourage, any such future acquisition or attempted acquisition, and would render the removal of the current board of directors or management of Flushing Financial more difficult.

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This document contains or incorporates by reference a number of forward-looking statements regarding the financial condition, results of operations and business of Flushing Financial and Atlantic Liberty, and may include statements for the period following the completion of the merger. You can find many of these statements by looking for words such as plan, believe, expect, intend, anticipate, estimate, project, or other similar expressions.

The ability of Flushing Financial and Atlantic Liberty to predict results or the actual effects of its plans and strategies is inherently uncertain. Accordingly, actual results may differ materially from anticipated results. Some of the factors that may cause actual results to differ materially from those contemplated by the forward-looking statements include, but are not limited to, the following:

difficulties in obtaining required stockholder and regulatory approvals for the merger;

increases in competitive pressure among financial institutions or from non-financial institutions;

changes in the interest rate environment;

changes in deposit flows, loan demand or real estate values;

changes in accounting principles, policies or guidelines;

legislative or regulatory changes;

changes in general economic conditions, either nationally or in some or all of the operating areas in which the combined company will be doing business, or conditions in securities markets or the banking industry;

a materially adverse change in the financial condition of Flushing Financial or Atlantic Liberty;

the level and timeliness of realization, if any, of expected cost savings from the merger;

difficulties related to the consummation of the merger and the integration of the businesses of Flushing Financial and Atlantic Liberty;

lower than expected revenues following the merger; and

other economic, competitive, governmental, regulatory, geopolitical and technological factors affecting operations, pricing and services.

Because such forward-looking statements are subject to assumptions and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Atlantic Liberty stockholders are cautioned not to place undue reliance on such statements, which speak only as of the date of this document or the date of any document incorporated by reference, or such other relevant historical date in

this or incorporated documents.

All subsequent written and oral forward-looking statements concerning the merger or other matters addressed in this document and attributable to Flushing Financial or Atlantic Liberty or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable law or regulation, Flushing Financial and Atlantic Liberty undertake no obligation to update such forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events.

Table of Contents

THE ATLANTIC LIBERTY SPECIAL MEETING

This section contains information about the special meeting of Atlantic Liberty stockholders that has been called to consider and approve the merger.

Together with this document, Atlantic Liberty is also sending you a notice of the special meeting and a form of proxy that is solicited by the Atlantic Liberty board of directors. The special meeting will be held at the main office of Atlantic Liberty Savings, 186 Montague Street, Brooklyn, New York, at 3:30 p.m., local time, on _____, 2006. This proxy statement/prospectus is first being mailed to stockholders of Atlantic Liberty on or about _____, 2006.

Matters to Be Considered

The purpose of the special meeting is to vote on a proposal for approval of the merger agreement.

You may be asked to vote upon a proposal to adjourn or postpone the Atlantic Liberty special meeting, if necessary. Atlantic Liberty could use any adjournment or postponement for the purpose, among others, of allowing additional time to solicit proxies in the event that there are not sufficient votes at the time of the special meeting to approve the merger.

Proxies

Each copy of this document mailed to Atlantic Liberty stockholders is accompanied by a proxy card with voting instructions for submission by mail. You should complete and return the proxy card accompanying this document to ensure that your vote is counted at the Atlantic Liberty special meeting, or at any adjournment or postponement of the meeting, regardless of whether you plan to attend the Atlantic Liberty special meeting. You can revoke your proxy at any time before the vote is taken at the Atlantic Liberty special meeting.

If your shares are held in _____ street name _____ through a bank or broker, you must direct your bank or broker to vote in accordance with the instructions you provide.

If you hold stock in your name as a stockholder of record, you may revoke your proxy by:

submitting written notice of revocation to the Corporate Secretary of Atlantic Liberty prior to the voting of such proxy;

submitting a properly executed proxy bearing a later date; or

voting in person at the special meeting; however, simply attending the special meeting without voting will not revoke an earlier proxy. Written notices of revocation and other communications about revoking your proxy should be addressed to:

Atlantic Liberty Financial Corp.

186 Montague Street

Brooklyn, New York 11201

Attention: William M. Gilfillan, Corporate Secretary

If your shares are held in _____ street name _____ through a bank or broker, you should follow the instructions of your bank or broker regarding the revocation of proxies.

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All shares represented by valid proxies that Atlantic Liberty receives through this solicitation, and that are not revoked, will be voted in accordance with your instructions on the proxy card. If you make no specification on your proxy card as to how you want your shares voted before signing and returning it, your proxy will be voted **FOR** approval of the merger, and **FOR** approval of the proposal to adjourn the special meeting, if necessary, to solicit additional proxies in the event that there are not sufficient votes at the time of the special meeting to approve

Table of Contents

the merger. The Atlantic Liberty board of directors is presently unaware of any other matters that may be presented for action at the special meeting. If other matters do properly come before the special meeting, or at any adjournment or postponement thereof, Atlantic Liberty intends that shares represented by properly submitted proxies will be voted, or not voted, by and at the discretion of the persons named as proxies on the proxy card. However, proxies that indicate a vote against approval of the merger will not be voted in favor of adjourning or postponing the special meeting to solicit additional proxies.

Atlantic Liberty stockholders should NOT send stock certificates with their proxy cards. Atlantic Liberty stockholders will be sent election forms and instructions, at which time they will be requested to submit their stock certificates. If the merger is completed, Atlantic Liberty stockholders who did not make a timely or proper election will be mailed a transmittal form promptly following the completion of the merger with instructions on how to exchange their Atlantic Liberty stock certificates for the merger consideration.

Solicitation of Proxies

Atlantic Liberty will bear the entire cost of soliciting proxies from its stockholders. In addition to solicitation of proxies by mail, Atlantic Liberty will request that banks, brokers and other record holders send proxies and proxy material to the beneficial owners of Atlantic Liberty common stock and secure their voting instructions, if necessary. Atlantic Liberty will reimburse the record holders for their reasonable expenses in taking those actions. Atlantic Liberty has also made arrangements with Georgeson Shareholder Communications Inc. to assist it in soliciting proxies and has agreed to pay them a fee of \$7,000 plus out-of-pocket expenses for these services. If necessary, Atlantic Liberty may use several employees of Atlantic Liberty Savings, who will not be specially compensated, to solicit proxies from Atlantic Liberty stockholders, either personally or by telephone, facsimile or letter.

Record Date

The Atlantic Liberty board of directors has fixed the close of business on _____, 2006 as the record date for determining the Atlantic Liberty stockholders entitled to receive notice of and to vote at the special meeting. On the record date, _____ shares of Atlantic Liberty common stock were outstanding and held by approximately _____ holders of record.

Voting Rights and Vote Required

The presence, in person or by properly executed proxy, of the holders of a majority of the outstanding shares of Atlantic Liberty common stock is necessary to constitute a quorum at the special meeting. Abstentions and any unvoted proxies submitted by a bank or broker (referred to as broker non-votes) will be counted solely for the purpose of determining whether a quorum is present.

Adoption of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of Atlantic Liberty common stock entitled to vote at the special meeting. Because the affirmative vote of the holders of a majority of the outstanding shares of Atlantic Liberty common stock entitled to vote at the special meeting is needed for us to proceed with the merger, the failure to vote by proxy or in person will have the same effect as a vote against the merger agreement. Abstentions and broker non-votes also will have the same effect as a vote against the merger agreement. Accordingly, the Atlantic Liberty board of directors urges Atlantic Liberty stockholders to complete, date and sign the accompanying proxy card and return it promptly in the enclosed postage-paid envelope, or, if you hold your stock in street name through a bank or broker, by following the voting instructions of your bank or broker.

Approval of any proposal to adjourn or postpone the meeting, if necessary, for the purpose of soliciting additional proxies may be obtained by the affirmative vote of the holders of a majority of the shares present in person or by proxy, even if less than a quorum. Because approval of such adjournments is based on the affirmative vote of a majority of shares present in person or by proxy, abstentions will have the same effect as a vote against this proposal.

Table of Contents

You are entitled to one vote for each share of Atlantic Liberty common stock you held as of the record date. However, Atlantic Liberty's certificate of incorporation provides that stockholders of record who beneficially own in excess of 10% of the then-outstanding shares of common stock of Atlantic Liberty are not entitled to any vote with respect to the shares held in excess of the 10% limit. As of the record date, directors and executive officers of Atlantic Liberty and their affiliates had the right to vote _____ shares of Atlantic Liberty common stock, or _____ % of the outstanding Atlantic Liberty common stock at that date. As of the record date, none of the directors and executive officers of Flushing Financial or their affiliates had the right to vote shares of Atlantic Liberty common stock. Atlantic Liberty's directors and executive officers have agreed to vote their shares of Atlantic Liberty common stock in favor of the merger agreement.

Recommendation of the Board of Directors

The Atlantic Liberty board of directors has unanimously approved the merger agreement and the transactions contemplated in the merger agreement. The Atlantic Liberty board of directors has determined that the merger agreement and the transactions contemplated in the merger agreement are advisable and in the best interests of Atlantic Liberty and its stockholders and unanimously recommends that you vote **FOR** approval of the merger agreement.

See "The Proposed Merger" Atlantic Liberty's Reasons for the Merger; Recommendation of Atlantic Liberty's Board of Directors for a more detailed discussion of the Atlantic Liberty board of directors' recommendation.

Attending the Special Meeting

All holders of Atlantic Liberty common stock, including stockholders of record and stockholders who hold their shares through banks, brokers, nominees or any other holder of record, are invited to attend the special meeting. Stockholders of record can vote in person at the special meeting. If you are not a stockholder of record, you must obtain a proxy executed in your favor, from the record holder of your shares, such as a broker, bank or other nominee, to be able to vote in person at the special meeting. If you plan to attend the special meeting, you must hold your shares in your own name or have a letter from the record holder of your shares confirming your ownership and you must bring a form of personal photo identification with you in order to be admitted. We reserve the right to refuse admittance to anyone without proper proof of share ownership and without proper photo identification.

Participants in Atlantic Liberty's and Atlantic Liberty Savings' Benefit Plans

Participants in Atlantic Liberty Savings' Employee Stock Ownership Plan (ESOP) have the right to direct the trustee as to the voting of Atlantic Liberty common stock allocated to their plan accounts, but do not have the right to vote these shares personally at the special meeting. Participants in the Atlantic Liberty Savings 401(k) Savings Plan (401(k) Plan) have the right to direct the trustee as to voting of the units held in the employer stock fund, but do not have the right to vote these shares personally at Atlantic Liberty's special meeting. Such participants should refer to the voting instructions provided by each plan's trustee for information on how to direct the voting of these shares.

Under the ESOP, each participant directs the ESOP trustee as to how to vote the shares allocated to the participant's account. The ESOP trustee then votes the unallocated shares in the ESOP loan suspense account and any allocated shares for which it has received no voting instructions, to the extent consistent with its fiduciary responsibilities, in the same proportions as the votes it receives on allocated shares.

Under the 401(k) Plan, each participant with trust fund units in the employer stock fund has the right to participate in the exercise of voting rights of shares held in the plan by filing a direction with the trustee. Generally, the trustee will cast a number of affirmative votes equal to the product of the total number of shares held in the employer stock fund and a fraction, the numerator of which is the aggregate value of the units in the fund of all persons directing that an affirmative vote be cast and the denominator of which is the aggregate value of the units in

Table of Contents

the employer stock fund of all persons directing that an affirmative or negative vote be cast. The 401(k) Plan provides that the 401(k) Plan trustee will cast a number of negative votes equal to the product of the total number of shares held in the employer stock fund and a fraction, the numerator of which is the aggregate value of the units in the fund of all participants directing that a negative vote be cast and the denominator of which is the aggregate value of the units in the employer stock fund of all participants directing that an affirmative or negative vote be cast.

Security Ownership of Certain Beneficial Owners of Atlantic Liberty

The following table sets forth certain information as to those persons that Atlantic Liberty believes are beneficial owners of more than 5% of Atlantic Liberty's outstanding common stock as of March 15, 2006. Persons and groups that beneficially own in excess of 5% of Atlantic Liberty's common stock are required to file certain reports with Atlantic Liberty and with the Securities and Exchange Commission regarding such beneficial ownership. For purposes of the table below and the table set forth under Beneficial Stock Ownership of Management, a person is deemed to be the beneficial owner of any shares of common stock (1) over which the person has or shares, directly or indirectly, voting or investment power, or (2) of which the person has a right to acquire beneficial ownership at any time within 60 days after March 15, 2006, other than the Chairman of the Board whose share holdings are set forth below. Voting power is the power to vote or direct the voting of shares and investment power includes the power to dispose or direct the disposition of shares. As of March 15, 2006, there were 1,719,956 shares of Atlantic Liberty common stock outstanding.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Common Stock Outstanding
Atlantic Liberty Savings, F.A.	130,908	7.61%
Employee Stock Ownership Plan Trust ⁽¹⁾ 186 Montague Street Brooklyn, New York 11201		
Wellington Management Company, LLP ⁽²⁾ 75 State Street Boston, Massachusetts 02109	145,600	8.47%
Bay Pond Partners, L.P., Wellington Hedge Management, LLC and Wellington Hedge Management, Inc. ⁽³⁾ c/o Wellington Management Company, LLP 75 State Street Boston, Massachusetts 02109	111,600	6.49%

⁽¹⁾ Based on Schedule 13G filed with the Securities and Exchange Commission on January 19, 2006.

⁽²⁾ Based on Schedule 13G filed with the Securities and Exchange Commission on February 14, 2006.

⁽³⁾ Based on Schedule 13G filed with the Securities and Exchange Commission on February 14, 2006.

Table of Contents**Beneficial Stock Ownership of Management**

The following table sets forth information with respect to the shares of Atlantic Liberty common stock beneficially owned by each director of Atlantic Liberty, by certain executive officers of Atlantic Liberty and by all directors and executive officers as a group as of March 15, 2006. Except as otherwise indicated, each person shown in the table has sole voting and investment power with respect to the shares of common stock indicated. The titles for the individuals listed in the following table are Atlantic Liberty titles, except as otherwise noted.

Name	Position with Atlantic Liberty ⁽¹⁾	Amount and Nature of Beneficial Ownership	Percent of Common Stock Outstanding
Richard T. Arkwright ⁽²⁾	Chairman	115,475	6.71%
Barry M. Donohue ⁽³⁾⁽⁸⁾	President and Chief Executive Officer	62,896	3.66%
Hon. Guy J. Mangano ⁽⁴⁾	Director	19,495	1.13%
Thomas M. De Martino ⁽⁵⁾	Director	19,434	1.13%
George M. Spanakos ⁽⁶⁾	Director	20,080	1.17%
William M. Gilfillan ⁽⁷⁾⁽⁸⁾	Executive Vice President, Chief Financial Officer and Corporate Secretary	53,635	3.12%
All officers and directors as a group (6 persons)		291,015	16.92%

⁽¹⁾ The address of the referenced officers and directors is 186 Montague Street, Brooklyn, New York.

⁽²⁾ Mr. Arkwright directly owns and has sole voting power over 88,375 shares. Mr. Arkwright may be deemed to be the indirect owner of 27,100 shares beneficially owned by Analytic Asset Management, Inc. of which he is Chairman. Mr. Arkwright disclaims ownership over such shares. Includes 6,929 shares underlying options exercisable within 60 days of the record date.

⁽³⁾ Mr. Donohue has sole voting power over 62,896 shares. Includes 27,718 shares underlying options exercisable within 60 days of the record date, as well as 9,942 shares held pursuant to the Atlantic Liberty Savings 401(k) Plan.

⁽⁴⁾ Mr. Mangano has sole voting power over 9,495 shares and shared voting power over 10,000 shares. Includes 6,929 shares underlying options exercisable within 60 days of the record date.

⁽⁵⁾ Mr. De Martino has sole voting power over 19,434 shares. Includes 6,929 shares underlying options exercisable within 60 days of the record date.

⁽⁶⁾ Mr. Spanakos has sole voting power over 9,680 shares and shared voting power over 10,400 shares. Includes 6,929 shares underlying options exercisable within 60 days of the record date.

⁽⁷⁾ Mr. Gilfillan has sole voting power over 53,635 shares. Includes 22,585 shares underlying options exercisable within 60 days of the record date, as well as 4,481 shares held pursuant to the Atlantic Liberty Savings 401(k) Plan.

⁽⁸⁾ Includes 6,248 shares allocated pursuant to the Atlantic Liberty Savings ESOP.

Table of Contents

THE PROPOSED MERGER

(Proposal One)

The description of the merger and the merger agreement contained in this proxy statement/prospectus describes the material terms of the merger agreement; however, it does not purport to be complete. It is qualified in its entirety by reference to the merger agreement. We have attached a copy of the merger agreement as Appendix A, and it is incorporated by reference into this proxy statement/prospectus. We encourage you to read the merger agreement.

General

Pursuant to the merger agreement, Atlantic Liberty will merge with and into Flushing Financial, with Flushing Financial as the surviving entity. Outstanding shares of Atlantic Liberty common stock will be converted into the right to receive cash, shares of Flushing Financial common stock or a combination of cash and stock. Cash will be paid in lieu of any fractional share of Flushing Financial common stock. See Merger Consideration; Cash or Stock Election below. As a result of the merger, the separate corporate existence of Atlantic Liberty will cease and Flushing Financial will succeed to all of the rights and be responsible for all of the obligations of Atlantic Liberty. Following the merger of Atlantic Liberty into Flushing Financial, Atlantic Liberty Savings will merge with and into Flushing Savings Bank and the separate corporate existence of Atlantic Liberty Savings will cease.

Background of the Merger

The Atlantic Liberty board of directors has periodically discussed and reviewed with management the business, strategic direction, performance and prospects of Atlantic Liberty in the context of the current and prospective business and regulatory environment, and Atlantic Liberty Savings size and resources relative to its competitors. The Atlantic Liberty board of directors has also at times discussed with management various potential strategic options, including strategies to grow Atlantic Liberty's business through marketing initiatives and changing the mix of loans originated by Atlantic Liberty Savings. In this regard, the management of Atlantic Liberty has from time to time communicated informally with representatives of other financial institutions regarding industry trends and issues. In addition, management and the board of directors have met periodically with representatives of Sandler O'Neill to review the financial performance of Atlantic Liberty Savings and the risks associated with maintaining Atlantic Liberty Savings' current business plan compared to changing the business plan to originate riskier but potentially more profitable commercial loans. Management and the board also considered Atlantic Liberty Savings' strategic direction and the possible benefits arising from a potential business combination.

In November 2004, the Atlantic Liberty board of directors held a board meeting, at which Sandler O'Neill was present. The board of directors reviewed with management the current financial services environment and the strategic options potentially available to Atlantic Liberty, including strategies for continuing as an independent entity (such as the purchase of branches and de novo branching) and for undertaking a business combination with another financial institution. It was noted that Atlantic Liberty had been public for two years and that under Office of Thrift Supervision regulations it could not, at that time, pursue a strategic business combination in which Atlantic Liberty was not the surviving entity. The board of directors agreed to monitor changes in the local business environment and how such changes might affect Atlantic Liberty Savings' profitability and prospects. At the conclusion of the meeting, the board of directors determined to invite Sandler O'Neill to make a presentation to the board of directors in 2005, at which meeting an analysis of the current business plan would be presented as well as a review of Atlantic Liberty's strategic options.

On July 20, 2005, representatives of Sandler O'Neill met with the Atlantic Liberty board of directors and reviewed with the board of directors financial and other information relating to Atlantic Liberty. Management and Sandler O'Neill also reviewed with the board of directors the current financial services environment, including continued consolidation, increased regulatory costs associated with being a public company, including compliance with the Sarbanes-Oxley Act of 2002, the flattening yield curve and its impact on Atlantic Liberty Savings' net interest income, evolving trends in technology, increasing competition, and the potential impact of that environment on Atlantic Liberty's business, performance, prospects and strategic options. Management and Sandler O'Neill also discussed with the board of directors the potential risks and benefits of the various strategies. Sandler O'Neill provided a historical analysis of Atlantic Liberty's business growth in comparison to a peer group of institutions, as

Table of Contents

well as an evaluation of Atlantic Liberty's potential earnings generating capacity. Among other things, the board noted that Atlantic Liberty's continued success in the current financial services environment would likely depend upon growing the bank and diversifying its loan and product mix. The board concluded that undertaking such a change in its business plan would require increases in Atlantic Liberty's interest expense and noninterest expense, and that a successful transition was not guaranteed. At the conclusion of this meeting, the Atlantic Liberty board of directors determined to continue to pursue the operations and current business plan of Atlantic Liberty.

At the September 2005 board meeting, there was further discussion by the board and management regarding Atlantic Liberty's current business prospects should it remain independent, and the need to review its strategic alternatives as part of a review of Atlantic Liberty's long-term business plan. At the meeting, the board determined to formally engage Sandler O'Neill as independent financial advisor to assist Atlantic Liberty in its strategic planning.

At the October 2005 board meeting, representatives of Sandler O'Neill and counsel met with the Atlantic Liberty board and management. At the meeting, the board reviewed in detail the status of the equity markets for financial institutions, and a market valuation matrix for Atlantic Liberty based upon projected earnings for Atlantic Liberty, a discounted dividend stream analysis and a terminal value analysis. At the meeting the board discussed in detail the challenges facing smaller institutions in the current flat interest rate environment as well as the increasing level of non-interest expenses that were unavoidable, such as the increasing costs of regulatory and securities law compliance and the impact that recent accounting pronouncements would have on Atlantic Liberty's profitability. Sandler O'Neill then presented a detailed review of the environment for mergers in the New York marketplace, an analysis of Atlantic Liberty's market value based on peer multiples and an imputed valuation analysis. Sandler O'Neill then discussed potential merger partners. At the conclusion of the meeting, the Atlantic Liberty board of directors authorized Sandler O'Neill to make preliminary contacts with potential strategic partners.

During October and November of 2005, Sandler O'Neill made inquiries of 21 financial institutions as to whether they would be interested in considering a potential business combination with Atlantic Liberty. Of the companies contacted, 11 financial institutions signed confidentiality agreements and received a Confidential Information Memorandum dated October 2005 and other information regarding Atlantic Liberty. On October 28, 2005, Flushing Financial signed a confidentiality agreement, and Flushing Financial and Keefe Bruyette & Woods, Inc., its investment advisor, began reviewing the information with respect to Atlantic Liberty. Flushing Financial considered the information with Keefe Bruyette & Woods, Inc., at a Board meeting on November 18, 2005 and submitted its indication of interest to Sandler O'Neill by letter dated November 21, 2005. This was one of two written indications of interest that were submitted. In addition, one oral indication of interest was received by Atlantic Liberty. At a November 23, 2005 special meeting of the board of directors of Atlantic Liberty, an evaluation of the indications of interest was presented by Sandler O'Neill. Flushing Financial's indication of interest of \$24.00 per share payable in stock and cash represented a premium of 20% over the next highest written indication of interest, and was the highest value submitted. The board was advised by Sandler O'Neill that Flushing Financial's \$24.00 per share value presumed that there would be no excess parachute payments to officers of Atlantic Liberty Savings that would trigger any excise taxes under sections 280G and 4999 of the Internal Revenue Code as a result of the acquisition. After a discussion about the indications of interest, the board of directors unanimously decided to proceed with a detailed due diligence investigation of Flushing Financial and to permit Flushing Financial to conduct due diligence of Atlantic Liberty. The board further authorized counsel to proceed with the negotiation of a definitive agreement with Flushing Financial subject to the satisfactory completion of due diligence and a satisfactory resolution of any excess parachute payment issues.

During the first week of December 2005, Flushing Financial finalized its due diligence investigation of Atlantic Liberty. The Flushing Financial board met again on December 7, 2005 with Keefe Bruyette & Woods, Inc. to consider the proposed substantive terms of the transaction. Also during that period, representatives of Atlantic Liberty and its advisors conducted a due diligence investigation of Flushing Financial. After further discussion, senior management of Atlantic Liberty and Flushing Financial determined that, assuming the finalization of definitive transaction documentation and satisfactory resolution of any excess parachute payment issues, they were each prepared to present to their respective boards of directors a proposed part-cash, part-stock merger transaction. Following further arm's length negotiations, taking into account, among other things, the contributions of Atlantic Liberty to the business, operations, financial condition and prospects of the combined company, anticipated cost savings and the impact of the merger consideration on the combined company's earnings and prospects,

Table of Contents

management of each company agreed that they were willing to propose to their respective boards of directors a transaction that would allow Atlantic Liberty stockholders to receive, at their election (but subject to adjustment in the event that either form of merger consideration was over-subscribed), either \$24.00 in cash or 1.43 shares of Flushing Financial common stock for each share of Atlantic Liberty common stock owned as of the completion of the merger. The merger agreement would provide that 65% of the total merger consideration would be in the form of Flushing Financial common stock and that the remaining 35% of the merger consideration would be in cash. During the next two weeks of December, legal counsel to Flushing Financial and Atlantic Liberty prepared and negotiated the definitive merger agreement, settlement agreements relating to the two executive officers of Atlantic Liberty and other related agreements with respect to the proposed merger and the elimination of excise and other tax issues.

On December 20, 2005, the boards of directors of Flushing Financial and Flushing Savings Bank held a special meeting at which were present senior management, representatives of Keefe Bruyette & Woods, Inc. and Thacher Proffitt & Wood LLP, special counsel, each of whom reported to the boards with respect to the business, financial and legal due diligence conducted by each of them and responded to questions from the boards. Keefe Bruyette & Woods, Inc. advised the boards that, as of the date of the board meeting and based upon and subject to the considerations noted at the meeting, in Keefe Bruyette & Woods, Inc.'s opinion, the proposed merger consideration was fair, from a financial point of view, to Flushing Financial.

Legal counsel then reviewed the agreement and plan of merger and all related documents and the actions taken with respect to the proposed transaction. Following their presentations, Flushing Financial's and Flushing Savings Bank's boards approved the proposed transaction and the documents presented.

On December 20, 2005, the boards of directors of Atlantic Liberty and Atlantic Liberty Savings held a special meeting. Mr. Donohue and other members of senior management, together with Atlantic Liberty's financial and legal advisors, reviewed with the board of directors the terms of the proposed merger with Flushing Financial. Counsel and representatives of Sandler O'Neill also reviewed the history of the board's actions taken up to the date of this board meeting, during which the board reviewed its business plan as if it were to remain independent, the process by which Flushing Financial's indication of interest was determined to provide the best value reasonably available for stockholders, and the negotiations with Flushing Financial's counsel. Mr. Donohue and other members of senior management, as well as representatives of Sandler O'Neill and counsel, also discussed with the board the results of their due diligence review of Flushing Financial.

In addition, representatives of Sandler O'Neill discussed a range of matters, including the matters set forth below under "Opinion of Atlantic Liberty's Financial Advisor." Representatives of Luse Gorman Pomerenk & Schick, P.C., Atlantic Liberty's legal counsel, then discussed with the Atlantic Liberty board of directors the legal standards applicable to its decisions and actions with respect to the proposed transaction, and reviewed the legal terms of the proposed merger and the related agreements. After this discussion, Sandler O'Neill rendered to the Atlantic Liberty board of directors its oral opinion (subsequently confirmed in writing) that, as of the date of the board meeting and based upon and subject to the considerations described in its opinion, the proposed merger consideration was fair, from a financial point of view, to holders of Atlantic Liberty common stock.

Following these presentations, the Atlantic Liberty and Atlantic Liberty Savings board meetings continued with discussions and questions among the members of the Atlantic Liberty board, management and Atlantic Liberty's legal and financial advisors. The board discussed, among other things, the fact that the implied value of the merger consideration, based on the exchange ratio and the closing stock price of Flushing Financial common stock on the Nasdaq National Market on the last trading day prior to the board meeting, and the cash portion of the merger consideration, was less than Atlantic Liberty's closing stock price on the prior day. The board of directors, however, noted that Flushing Financial's offer was substantially higher than the next highest offer, that Atlantic Liberty had been fully shopped, and that Sandler O'Neill believed the trading price of Atlantic Liberty's common stock had been inflated by investors' belief that Atlantic Liberty might effect a strategic transaction on or soon after the third anniversary of its public offering, and that the stock price could fall substantially below the Flushing Financial offer if no transaction occurred. The board also noted that it too believed Atlantic Liberty common stock was trading above the levels at which it would otherwise be trading due in large part to the rumors of a potential business combination transaction involving Atlantic Liberty, which were consistent with higher price to earnings ratios of comparable banks and thrifts.

Table of Contents

After further discussion, and taking into consideration the factors described under Atlantic Liberty's Reasons for the Merger; Recommendation of Atlantic Liberty's Board of Directors, the Atlantic Liberty board determined that the combined company would have better future prospects than Atlantic Liberty was likely to achieve on a stand-alone basis and that the proposed merger with Flushing Financial presented the best opportunity for enhancing Atlantic Liberty stockholder value. Accordingly, the Atlantic Liberty board determined that the Flushing Financial transaction was advisable and in the best interests of Atlantic Liberty and its stockholders, and the Atlantic Liberty board unanimously approved the merger with Flushing Financial.

Following approval of the boards of directors on December 20, 2005 of Atlantic Liberty, Atlantic Liberty Savings, Flushing Financial and Flushing Savings Bank, the parties executed the merger agreement. The next day, the parties publicly announced the transaction by issuing a joint press release.

Atlantic Liberty's Reasons for the Merger; Recommendation of Atlantic Liberty's Board of Directors

The Atlantic Liberty board of directors reviewed and discussed the proposed merger with management and its financial and legal advisors in determining that the proposed merger is in the best interests of Atlantic Liberty and its stockholders. In reaching its conclusion to approve the merger agreement, the Atlantic Liberty board of directors considered a number of factors, including the following:

The fact that the cash/stock election feature of the merger consideration offers Atlantic Liberty stockholders both the opportunity to participate in the growth and opportunities of the combined company through the stock component, and the opportunity to realize cash for the value of their shares through the cash component, subject to the allocation procedures in the merger agreement in the event that either form of merger consideration is over-subscribed.

Its understanding of the business, operations, financial condition, earnings and future prospects of Atlantic Liberty.

Its understanding of the business, operations, financial condition, earnings and future prospects of Flushing Financial, taking into account Atlantic Liberty's due diligence investigation of Flushing Financial.

The current and prospective environment in which Atlantic Liberty and Flushing Financial operate, including national, regional and local economic conditions, the competitive environment for financial institutions generally and the trend toward consolidation in the financial services industry.

The review by the Atlantic Liberty board of directors with its legal and financial advisors of the structure of the merger and the financial and other terms of the merger agreement, including the exchange ratio and cash consideration offered by Flushing Financial.

The complimentary nature of the respective markets, customers and asset/liability mix of the two companies.

The reports of Atlantic Liberty's management and the financial presentation by Sandler O'Neill to Atlantic Liberty's board of directors concerning the operations, financial condition and prospects of Flushing Financial and the expected financial impact of the merger on the combined company, including pro forma assets, earnings, deposits and other financial metrics.

The likelihood that the regulatory approvals needed to complete the transaction will be obtained.

The historical and current market prices of shares of Flushing Financial common stock and shares of Atlantic Liberty common stock.

The opinion delivered to the Atlantic Liberty board of directors by Sandler O'Neill that, as of the date of the opinion and based upon and subject to the considerations in its opinion, the merger consideration was fair, from a financial point of view, to holders of Atlantic Liberty common stock.

Table of Contents

The benefits of increased liquidity that Atlantic Liberty stockholders would have as stockholders of Flushing Financial. The Atlantic Liberty board of directors also considered potential risks associated with the merger in connection with its deliberations of the proposed transaction, including:

The challenges of combining the businesses, assets and workforces of the two companies, which could affect the post-merger success of the combined company, and the ability to achieve anticipated cost savings and other potential synergies.

That the fixed exchange ratio component of the merger consideration will not adjust to compensate for changes in the stock price of Flushing Financial or Atlantic Liberty prior to completion of the merger, and that Flushing Financial is not required to increase the number of shares it issues in the merger in the event that its common stock decreases in value to a greater extent than a predetermined basket of financial stocks.

The interests of Atlantic Liberty executive officers and directors with respect to the merger apart from their interests as holders of Atlantic Liberty common stock, and the risk that these interests might influence their decision with respect to the merger. See *Interests of Directors and Executive Officers In the Merger*.

The risk that the terms of the merger agreement, including provisions relating to the payment of a termination fee under specified circumstances, although required by Flushing Financial as a condition to its willingness to enter into a merger agreement, could have the effect of discouraging other parties that might be interested in a transaction with Atlantic Liberty from proposing such a transaction.

The discussion of the information and factors considered by the Atlantic Liberty board of directors is not exhaustive, but includes all material factors considered by the Atlantic Liberty board of directors. In view of the wide variety of factors considered by the Atlantic Liberty board of directors in connection with its evaluation of the merger and the complexity of these matters, the board of directors did not consider it practical to, nor did it attempt to, quantify, rank or otherwise assign relative weights to the specific factors that it considered in reaching its decision. The Atlantic Liberty board of directors evaluated the factors described above, including asking questions of management and its legal and financial advisors, and reached consensus that the merger was in the best interests of Atlantic Liberty and its stockholders. In considering the factors described above, individual members of the Atlantic Liberty board of directors may have given different weights to different factors. The Atlantic Liberty board of directors considered these factors as a whole, and overall considered them to be favorable to, and to support its determination. It should be noted that this explanation of the Atlantic Liberty board of directors' reasoning and all other information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed under *Cautionary Statement Regarding Forward-Looking Statements*.

The Atlantic Liberty board of directors determined that the merger, the merger agreement and the transactions contemplated thereby are advisable and in the best interests of Atlantic Liberty and its stockholders. The board of directors also determined that the merger agreement and the transactions contemplated thereby are consistent with, and in furtherance of, Atlantic Liberty's business strategies. Accordingly, the board of directors unanimously approved the merger agreement and unanimously recommends that Atlantic Liberty stockholders vote **FOR** approval of the merger agreement.

Opinion of Atlantic Liberty's Financial Advisor

By letter agreement dated September 28, 2005, Atlantic Liberty engaged Sandler O'Neill to provide financial advisory services to the Atlantic Liberty board of directors in connection with the Board's consideration of a possible business combination involving Atlantic Liberty and a third party. Sandler O'Neill is a nationally recognized investment banking firm whose principal business specialty is financial institutions. In the ordinary course of its investment banking business, Sandler O'Neill is regularly engaged in the valuation of financial institutions and their securities in connection with mergers and acquisitions and other corporate transactions.

Sandler O'Neill acted as financial advisor to Atlantic Liberty in connection with the proposed merger and participated in certain of the negotiations leading to the merger agreement. At the December 20, 2005 meeting at

Table of Contents

which the Atlantic Liberty board considered and approved the merger agreement, Sandler O'Neill delivered to the board its oral opinion, subsequently confirmed in writing that, as of such date, the merger consideration was fair to Atlantic Liberty shareholders from a financial point of view. **The full text of Sandler O'Neill's opinion is attached as Appendix C to this proxy statement/prospectus. The opinion outlines the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Sandler O'Neill in rendering its opinion. The description of the opinion set forth below is qualified in its entirety by reference to the opinion. We urge Atlantic Liberty shareholders to read the entire opinion carefully in connection with their consideration of the proposed merger.**

Sandler O'Neill's opinion speaks only as of the date of the opinion. The opinion was directed to the Atlantic Liberty board of directors and is directed only to the fairness of the merger consideration from a financial point of view to Atlantic Liberty's shareholders. It does not address the underlying business decision of Atlantic Liberty to engage in the merger, the relative merits of the merger as compared to any other alternative business strategies that might exist for Atlantic Liberty or any other aspect of the merger and is not a recommendation to any Atlantic Liberty shareholder as to how the shareholder should vote at the special meeting with respect to the merger or any other matter or the form of consideration the shareholder should elect in the merger.

In connection with rendering its opinion, Sandler O'Neill reviewed and considered, among other things:

- (1) the merger agreement;
- (2) certain publicly available financial statements and other historical financial information of Atlantic Liberty that Sandler O'Neill deemed relevant;
- (3) certain publicly available financial statements and other historical financial information of Flushing Financial that Sandler O'Neill deemed relevant;
- (4) an internal budget for Atlantic Liberty for the year ending December 31, 2005 prepared by and reviewed with senior management of Atlantic Liberty and estimates of earnings for Atlantic Liberty for the years ending December 31, 2006 and 2007 furnished by and reviewed with senior management of Atlantic Liberty;
- (5) median estimates of earnings per share for Atlantic Liberty for the years ending December 31, 2005 and 2006 and estimates of earnings per share growth rates for the years thereafter, in each case, reviewed with senior management of Atlantic Liberty;
- (6) an internal budget for Flushing Financial for the year ending December 31, 2005 prepared by and reviewed with management of Flushing Financial and earnings estimates for Flushing Financial for the years ending December 31, 2006 and 2007 furnished by and reviewed with senior management of Flushing Financial;
- (7) estimates of earnings per share for Flushing Financial for the years ending December 31, 2006 and 2007 and estimates of earnings per shares growth rates for the years thereafter, in each case, published by I/B/E/S and reviewed with senior management of Flushing Financial;
- (8) the pro forma financial impact of the merger on Flushing Financial, based on assumptions relating to transaction expenses, purchase accounting adjustments and certain cost savings projected by the senior management of Atlantic Liberty and Flushing Financial;
- (9) the publicly reported historical price and trading activity for Atlantic Liberty's and Flushing Financial's common stock, including a comparison of certain financial and stock market information for Atlantic Liberty and Flushing Financial with similar publicly

available information for certain other companies the securities of which are publicly traded;

Table of Contents

(10) to the extent publicly available, the financial terms of certain recent business combinations in the banking industry;

(11) the current market environment generally and the banking environment in particular; and

(12) such other information, financial studies, analyses and investigations and financial, economic and market criteria as Sandler O'Neill considered relevant.

Sandler O'Neill also discussed with certain members of Atlantic Liberty's senior management their views of the business, financial condition, results of operations and prospects of Atlantic Liberty. Sandler O'Neill discussed similar matters with certain members of senior management of Flushing Financial regarding the business, financial condition, results of operations and prospects of Flushing Financial.

In performing its reviews and analyses and in rendering its opinion, Sandler O'Neill assumed and relied upon the accuracy and completeness of all the financial information and other information that was available from public sources, that was provided to it by Atlantic Liberty or Flushing Financial or their respective representatives or that was otherwise reviewed by it, and further relied on the assurances of senior management of Atlantic Liberty and Flushing Financial that they were not aware of any facts or circumstances that would make such information inaccurate or misleading. Sandler O'Neill was not asked to and did not independently verify any such information and it did not assume any responsibility or liability for the accuracy or completeness thereof. Sandler O'Neill did not make an independent evaluation or appraisal of the specific assets, the collateral securing assets or the liabilities (contingent or otherwise) of Atlantic Liberty or Flushing Financial or any of their respective subsidiaries, or the ability to collect on any such assets, nor was it furnished with any such evaluations or appraisals. Sandler O'Neill is not an expert in the evaluation of allowances for loan losses, and it did not make an independent evaluation of the adequacy of the allowance for loan losses of Atlantic Liberty or Flushing Financial, nor did it review any individual credit files relating to Atlantic Liberty or Flushing Financial. With Atlantic Liberty's consent, Sandler O'Neill assumed that the respective allowances for loan losses for both Atlantic Liberty and Flushing Financial were adequate to cover such losses and will be adequate on a pro forma basis for the combined entity. Sandler O'Neill also assumed that there has been no material change in the assets, financial condition, results of operations, business or prospects of Atlantic Liberty or Flushing Financial since the date of the most recent financial statements made available. In addition, Sandler O'Neill did not conduct any physical inspection of the properties or facilities of Atlantic Liberty or Flushing Financial.

Sandler O'Neill assumed, in all respects material to its analysis, that Atlantic Liberty and Flushing Financial will remain as going concerns for all periods relevant to its analyses, that all of the representations and warranties contained in the merger agreement and all related agreements were true and correct, that each party to such agreements will perform all of the covenants required to be performed by it under such agreements, that the conditions precedent in such agreements are not waived and that the merger will qualify as a tax-free reorganization for federal income tax purposes with respect to the Flushing Financial common stock to be issued in the merger. With Atlantic Liberty's consent, Sandler O'Neill relied upon the advice Atlantic Liberty received from its legal, accounting and tax advisors as to all legal, accounting and tax matters relating to the merger and the other transactions contemplated by the merger agreement.

Sandler O'Neill's opinion was necessarily based on financial, economic, market and other conditions as they existed on, and could be evaluated as of, the date of its opinion. Events occurring after the date of the opinion could materially affect the opinion. Sandler O'Neill has not undertaken to update, revise, reaffirm or withdraw its opinion or otherwise comment upon events occurring after the date thereof. Sandler O'Neill expressed no opinion therein as to what the value of the Flushing Financial common stock will be when issued to Atlantic Liberty's shareholders pursuant to the merger agreement or the prices at which the Atlantic Liberty or Flushing Financial common stock may trade at any time.

In rendering its opinion, Sandler O'Neill performed a variety of financial analyses. The following is a summary of the material analyses performed by Sandler O'Neill, but is not a complete description of all the analyses underlying Sandler O'Neill's opinion. The summary includes information presented in tabular format. **In order to fully understand the financial analyses, these tables must be read together with the accompanying text. The tables alone do not constitute a complete description of the financial analyses.** The preparation of a fairness

Table of Contents

opinion is a complex process involving subjective judgments as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. The process, therefore, is not necessarily susceptible to a partial analysis or summary description. Sandler O'Neill believes that its analyses must be considered as a whole and that selecting portions of the factors and analyses considered without considering all factors and analyses, or attempting to ascribe relative weights to some or all such factors and analyses, could create an incomplete view of the evaluation process underlying its opinion. Also, no company included in Sandler O'Neill's comparative analyses described below is identical to Atlantic Liberty or Flushing Financial and no transaction is identical to the merger. Accordingly, an analysis of comparable companies or transactions involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the public trading values or merger transaction values, as the case may be, of Atlantic Liberty or Flushing Financial and the companies to which they are being compared.

The earnings projections used and relied upon by Sandler O'Neill for Atlantic Liberty in its analyses were based upon internal financial projections for Atlantic Liberty prepared by and reviewed with the management of Atlantic Liberty. The earnings projections used and relied upon by Sandler O'Neill for Flushing Financial in its analyses were based upon internal financial projections for Flushing Financial prepared by and reviewed with the management of Flushing Financial. With respect to Atlantic Liberty's and Flushing Financial's financial projections and all projections of transaction costs, purchase accounting adjustments and expected cost savings relating to the merger, management of the respective institutions confirmed to Sandler O'Neill that they reflected the best currently available estimates and judgments of management and Sandler O'Neill assumed for purposes of its analyses that such performances would be achieved. Sandler O'Neill expressed no opinion as to such financial projections or the assumptions on which they were based. The financial projections and estimates provided by management of Atlantic Liberty and Flushing Financial were prepared for internal purposes only and not with a view towards public disclosure. These projections, as well as the other estimates used by Sandler O'Neill in its analyses, were based on numerous variables and assumptions that are inherently uncertain, and, accordingly, actual results could vary materially from those set forth in such projections.

In performing its analyses, Sandler O'Neill also made numerous assumptions with respect to industry performance, business and economic conditions and various other matters, many of which cannot be predicted and are beyond the control of Atlantic Liberty, Flushing Financial and Sandler O'Neill. The analyses performed by Sandler O'Neill are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by such analyses. Sandler O'Neill prepared its analyses solely for purposes of rendering its opinion and provided such analyses to the Atlantic Liberty board at the board's December 20, 2005 meeting. Estimates of the values of companies do not purport to be appraisals or necessarily reflect the prices at which companies or their securities may actually be sold. Such estimates are inherently subject to uncertainty and actual values may be materially different. Accordingly, Sandler O'Neill's analyses do not necessarily reflect the value of the Flushing Financial common stock or the price at which the Flushing Financial common stock may be sold at any time.

Summary of Proposal. Sandler O'Neill reviewed the financial terms of the proposed transaction. Based upon the total consideration equal to (i) \$14.13 million in cash and (ii) 2.4057 million shares of Flushing Financial common stock and also based upon (i) 1,682,347 shares of Atlantic Liberty common stock outstanding as of September 30, 2005, (ii) 68,435 unvested management recognition plan shares that will vest upon a change of control, (iii) 157,887 options outstanding with a weighted average strike price of \$18.50 per option and (iv) the closing stock price of Flushing Financial common stock of \$16.55 on December 19, 2005, Sandler O'Neill calculated a per share transaction value of \$23.78 (excluding merger expenses and capitalized transaction costs), which is the sum of $65\% \times 1.43 \times \16.55 plus $35\% \times \$24.00$.

Table of Contents

Based upon Atlantic Liberty's financial information as of and for the period ending September 30, 2005, Sandler O'Neill calculated the following ratios:

	Flushing Financial/ Atlantic Liberty	Transaction Ratios Regional Transactions ⁽¹⁾	Nationwide Transactions ⁽²⁾
Transaction price/Last 12 Months Earnings Per Share	22.9x	22.9x	23.3x
Transaction price/Book value ⁽³⁾	139%	198%	177%
Transaction price/Tangible book value ⁽³⁾	139%	239%	209%
Tangible book premium/Core deposits ⁽⁴⁾	18.8%	20.0%	20.3%

(1) Represents the median transaction ratios for Mid-Atlantic and New England savings institution transactions with a deal value greater than \$15 million since January 1, 2004.

(2) Represents the median transaction ratios for nationwide savings institution transactions with a deal value greater than \$15 million since January 1, 2005.

(3) Reflects Atlantic Liberty's stated book value and tangible book value of \$17.08 per share.

(4) Core deposits are defined as total deposits less jumbo and brokered certificates of deposit.

Stock Trading History of Atlantic Liberty. Sandler O'Neill reviewed the reported closing per share market prices and volume of the Atlantic Liberty common stock for a one-year period ended December 19, 2005, and since Atlantic Liberty's initial public offering. Sandler O'Neill then reviewed the relationship between the movements in the closing prices of the Atlantic Liberty common stock during those periods to movements in certain stock indices, including the Standard & Poor's 500 Index, Standard & Poor's Bank Index, and the Nasdaq Bank Index, and to the weighted average (by market capitalization) performance of a peer group of publicly-traded savings institutions selected by Sandler O'Neill. The institutions included in the peer group are identified in the section **Comparable Company Analysis of Atlantic Liberty** below.

During the one-year period ended December 19, 2005 and since the initial public offering on October 23, 2002, the Atlantic Liberty common stock outperformed all of the selected indices and its peer group.

Atlantic Liberty Stock Performance

	Beginning Index Value December 19, 2004	Ending Index Value December 19, 2005
Atlantic Liberty	100.0	134.2
Atlantic Liberty Peer Group	100.0	92.0
NASDAQ Bank Index	100.0	98.6
S&P Bank Index	100.0	101.1
S&P 500 Index	100.0	105.3

	Beginning Index Value October 23, 2002	Ending Index Value December 19, 2005
Atlantic Liberty	100.0	184.4
Atlantic Liberty Peer Group	100.0	144.6
NASDAQ Bank Index	100.0	140.4
S&P Bank Index	100.0	133.4
S&P 500 Index	100.0	140.7

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Sandler O'Neill also noted that the total reported trading volume for Atlantic Liberty over the one-year period was 689,000 shares, and 2.8 million shares since its initial public offering.

Table of Contents

Comparable Company Analysis of Atlantic Liberty. Sandler O Neill used publicly available information to compare selected financial and market trading information for Atlantic Liberty and a group of savings institutions selected by Sandler O Neill. This peer group consisted of the following publicly traded savings institutions:

Elmira Savings Bank
 Farnsworth Bancorp, Inc.
 Laurel Capital Group, Inc.
 Mayflower Co-operative Bank
 Roebing Financial Corp., Inc.
 Rome Bancorp, Inc.
 RSV Bancorp, Inc.
 SE Financial Corp.
 WVS Financial Corp.

Sandler O Neill used publicly available information to compare selected financial and market trading information for Atlantic Liberty and the median data for the savings institutions in the peer group as of and for the 12 months ending September 30, 2005. The table below sets forth the comparative data as of and for the 12 months ending September 30, 2005, with pricing data as of December 19, 2005:

Comparable Group Analysis of Atlantic Liberty

	Atlantic Liberty	Peer Group Median
Total assets (<i>in millions</i>)	\$ 177.1	\$ 239.8
Tangible equity/Tangible assets	16.23%	8.88%
Intangible Assets/Total Equity	0.00	0.00
Net Loans/Total Assets	69.96	62.30
Gross Loans/Total Deposits	119.12	83.82
Total Borrowings/Total Assets	22.90	8.48
Non-Performing Assets/Assets	0.05	0.25
Loan Loss Reserve/Gross Loans	0.60	0.89
Net Interest Margin	4.01	3.45
Non-Interest Income/Average Assets	0.33	0.45
Fees/Revenues	7.89	10.91
Non-Interest Expense/Average Assets	2.54	2.59
Efficiency Ratio	60.82	68.98
Last 12 Months Return on Average Assets	0.94	0.66
Last 12 Months Return on Average Equity	6.11	5.37
Price/Book Value	164.02	147.10
Price/Tangible Book Value	164.02	148.04
Price/Last 12 Months Earnings Per Share	26.94x	27.64x
Dividend Payout Ratio	27.88%	44.94%
Dividend Yield	1.03	2.45
Market Capitalization (<i>in millions</i>)	\$ 47	\$ 34
3 Year Compound Annual Growth Rate of Total Assets	11.24%	6.84%
3 Year Compound Annual Growth Rate of Total Deposits	0.54	6.31

Discounted Dividend Stream and Terminal Value Analysis of Atlantic Liberty. Sandler O Neill performed an analysis that estimated the future stream of after-tax dividend flows of Atlantic Liberty through December 31, 2009 under various circumstances, assuming Atlantic Liberty's projected dividend stream and assuming that Atlantic Liberty performed in accordance with the earnings projections through 2009 that were reviewed with Atlantic Liberty's management. To approximate the terminal value of Atlantic Liberty common stock at December 31, 2009, Sandler O Neill applied a 10.0x to 25.0x price/last 12 months earnings multiple range. The dividend income streams and terminal values were then discounted to present values using different discount rates ranging from 9% to 14% chosen to reflect different assumptions regarding required rates of return of holders of Atlantic Liberty common stock. As illustrated in the following table, this analysis indicated an imputed range of values per share of Atlantic Liberty common stock of \$8.00 to \$21.58 when applying the price/last 12 months earnings multiples. Sandler O Neill also considered and discussed with the Atlantic Liberty board how the present value

Table of Contents

analyses would be affected by changes in the underlying assumptions, including variations with respect to net income, dividend payout ratios, and share repurchases.

Earnings Per Share Multiples

Discount Rate	10.0x	13.0x	16.0x	19.0x	22.0x	25.0x
9.00%	\$ 9.21	\$ 11.68	\$ 14.16	\$ 16.63	\$ 19.11	\$ 21.58
10.00%	\$ 8.95	\$ 11.35	\$ 13.75	\$ 16.16	\$ 18.56	\$ 20.96
11.00%	\$ 8.70	\$ 11.03	\$ 13.36	\$ 15.70	\$ 18.03	\$ 20.37
12.00%	\$ 8.46	\$ 10.72	\$ 12.99	\$ 15.26	\$ 17.52	\$ 19.79
13.00%	\$ 8.22	\$ 10.43	\$ 12.63	\$ 14.83	\$ 17.03	\$ 19.24
14.00%	\$ 8.00	\$ 10.14	\$ 12.28	\$ 14.42	\$ 16.56	\$ 18.70

Sandler O'Neill noted that the discounted dividend stream and terminal value analysis is a widely used valuation methodology, but the results of such methodology are highly dependent upon the numerous assumptions that must be made, and the results thereof are not necessarily indicative of actual values or future results.

Stock Trading History of Flushing Financial. Sandler O'Neill reviewed the reported closing per share market prices and volume of the Flushing Financial common stock for the one-year and three-year periods ended December 19, 2005 and the relationship between the movements in the closing prices of the Flushing Financial common stock during those periods to movements in certain stock indices, including the Standard & Poor's 500 Index, Standard & Poor's Bank Index, and the Nasdaq Bank Index, and to the weighted average (by market capitalization) performance of a peer group of publicly-traded savings institutions selected by Sandler O'Neill. The institutions included in the peer group are identified in the section "Comparable Company Analysis of Flushing Financial" below.

During the one-year period ended December 19, 2005, the Flushing Financial common stock underperformed all of the selected indices and its peer group. Over the three-year period ended December 19, 2005, the Flushing Financial common stock outperformed all of the indices and peer group to which it was compared.

Flushing Financial Stock Performance

	Beginning Index Value December 19, 2004	Ending Index Value December 19, 2005
Flushing Financial	100.0	84.3
Flushing Financial Peer Group	100.0	95.4
NASDAQ Bank Index	100.0	98.6
S&P Bank Index	100.0	101.1
S&P 500 Index	100.0	105.3

	Beginning Index Value December 19, 2002	Ending Index Value December 19, 2005
Flushing Financial	100.0	153.0
Flushing Financial Peer Group	100.0	126.9
NASDAQ Bank Index	100.0	139.4
S&P Bank Index	100.0	137.4
S&P 500 Index	100.0	139.2

Sandler O'Neill also noted that the total reported trading volume for Flushing Financial over the one-year and three-year periods ended December 19, 2005 was 15.1 million and 40.0 million shares.

Table of Contents

Comparable Company Analysis of Flushing Financial. Sandler O Neill used publicly available information to compare selected financial and market trading information for Flushing Financial and a group of savings institutions selected by Sandler O Neill. This peer group consisted of the following publicly traded savings institutions:

Dime Community Bancshares, Inc.
 ESB Financial Corporation
 FMS Financial Corporation
 Harleysville Savings Financial Corporation
 KNBT Bancorp, Inc.
 NewMil Bancorp, Inc.
 OceanFirst Financial Corp.
 Parkvale Financial Corporation
 PennFed Financial Services, Inc.
 Provident New York Bancorp
 Sound Federal Bancorp, Inc.
 Synergy Financial Group, Inc.
 TrustCo Bank Corp NY
 Willow Grove Bancorp, Inc.

Sandler O Neill used publicly available information to compare selected financial and market trading information for Flushing Financial and the median data for the savings institutions in the peer group as of and for the 12 months ending September 30, 2005. The table below sets forth the comparative data as of and for the 12 months ending September 30, 2005, with pricing data as of December 19, 2005:

Comparable Group Analysis of Flushing Financial

	Flushing Financial	Peer Group Median
Total assets (<i>in millions</i>)	\$ 2,306.0	\$ 1,840.3
Tangible equity/Tangible assets	7.28%	6.50%
Intangible Assets/Total Equity	2.28	13.02
Net Loans/Total Assets	79.20	59.79
Gross Loans/Total Deposits	137.66	83.56
Total Borrowings/Total Assets	32.01	22.39
Non-Performing Assets/Assets	0.09	0.12
Loan Loss Reserve/Gross Loans	0.60	0.94
Net Interest Margin	3.31	2.95
Non-Interest Income/Average Assets	0.32	0.46
Fees/Revenues	9.24	15.18
Non-Interest Expense/Average Assets	1.67	2.08
Efficiency Ratio	48.05	62.79
Last 12 Months Return on Average Assets	1.07	0.73
Last 12 Months Return on Average Equity	14.18	10.57
Price/Book Value	186.69	152.52
Price/Tangible Book Value	191.04	205.73
Price/Last 12 Months Earnings Per Share	13.03x	15.88x
Dividend Payout Ratio	30.71%	43.55%
Dividend Yield	2.36	2.67
Market Capitalization (<i>in millions</i>)	\$ 320	\$ 231
3 Year Compound Annual Growth Rate of Total Assets	11.43%	8.75%
3 Year Compound Annual Growth Rate of Total Deposits	15.96	8.20

Discounted Dividend Stream and Terminal Value Analysis of Flushing Financial. Sandler O Neill performed an analysis that estimated the future stream of after-tax dividend flows of Flushing Financial through December 31, 2009 under various circumstances, assuming the projected dividend stream of Flushing Financial and that Flushing Financial performed in accordance with the earnings projections through 2006 reviewed with Flushing Financial management. For periods after 2006, Sandler O Neill assumed an annual earnings per share growth rate of approximately

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10%. To approximate the terminal value of Flushing Financial common stock at December 31, 2009, Sandler O'Neill applied a 10.0x to 20.0x price/last 12 months earnings multiple range. The dividend income streams and terminal values were then discounted to present values using different discount rates ranging from 9% to 14% chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of

Table of Contents

Flushing Financial common stock. As illustrated in the following table, this analysis indicated an imputed range of values per share of Flushing Financial common stock of \$12.94 to \$28.47 when applying the price/last 12 months earnings multiples. Sandler O Neill also considered and discussed with the Atlantic Liberty board how the present value analyses would be affected by changes in the underlying assumptions, including variations with respect to net income, dividend payout ratios and share repurchases. The 20-day average closing price of Flushing Financial common stock on December 19, 2004 was \$16.94 per share.

Earnings Per Share Multiples

Discount Rate	10.0x	12.0x	14.0x	16.0x	18.0x	20.0x
9.00%	\$ 14.90	\$ 17.61	\$ 20.33	\$ 23.04	\$ 25.76	\$ 28.47
10.00%	\$ 14.48	\$ 17.11	\$ 19.75	\$ 22.38	\$ 25.02	\$ 27.65
11.00%	\$ 14.07	\$ 16.63	\$ 19.19	\$ 21.75	\$ 24.31	\$ 26.86
12.00%	\$ 13.68	\$ 16.16	\$ 18.65	\$ 21.14	\$ 23.62	\$ 26.11
13.00%	\$ 13.30	\$ 15.72	\$ 18.13	\$ 20.55	\$ 22.96	\$ 25.38
14.00%	\$ 12.94	\$ 15.29	\$ 17.63	\$ 19.98	\$ 22.33	\$ 24.67

Sandler O Neill noted that the discounted dividend stream and terminal value analysis is a widely used valuation methodology, but the results of such methodology are highly dependent upon the numerous assumptions that must be made, and the results thereof are not necessarily indicative of actual values or future results.

Analysis of Selected Merger Transactions. Sandler O Neill reviewed 16 merger transactions announced from January 1, 2004 through December 19, 2005 involving savings institutions acquired in the Mid-Atlantic and New England (the Regional Group) with announced transaction values greater than \$15 million. Sandler O Neill also reviewed 15 merger transactions announced in the United States (the Nationwide Group) from January 1, 2005 through December 19, 2005 involving savings institutions with announced transaction values greater than \$15 million. Sandler O Neill reviewed the following multiples: transaction price at announcement to last 12 months net income, transaction price to stated book value, transaction price to tangible book value, and tangible book premium to core deposits. Sandler O Neill computed a high, low, mean, and median multiple and premium for the transactions. The median multiples from the Regional Group and the median multiples for the Nationwide Group were applied to Atlantic Liberty's financial information as of and for the 12 months ended September 30, 2005. As illustrated in the following table, Sandler O Neill derived imputed ranges of values for Atlantic Liberty of \$39.2 million to \$68.8 million based upon the median multiples for the savings institution transactions in the Regional Group and \$39.8 million to \$60.2 million based upon the median multiples for savings institution transactions in the Nationwide Group.

Comparable Transaction Multiples

	Median Regional Group Multiple	Implied Value (\$mm)	Median Nationwide Group Multiple	Implied Value (\$mm)
Transaction price/Last 12 Months net income	23.0x	\$ 39.2	23.3x	\$ 39.8
Transaction price/Book value	198.3%	\$ 57.0	176.5%	\$ 50.7
Transaction price/Tangible book value	239.3%	\$ 68.8	209.5%	\$ 60.2
Tangible book premium/Core deposits ⁽¹⁾	20.0%	\$ 43.3 ⁽²⁾	20.3%	\$ 43.5 ⁽²⁾

⁽¹⁾ Assumes 30.29% of total deposits are non-core deposits.

⁽²⁾ Assumes Atlantic Liberty's total core deposits are \$62.5 million. Tangible book premium/core deposits calculated by dividing the excess of the aggregate transaction value of \$42.47 million over tangible book value by core deposits.

Pro Forma Merger Analysis. Sandler O Neill analyzed certain potential pro forma effects of the merger, assuming the following: (1) the merger closes on June 30, 2006; (2) \$14.13 million in cash and 2.4057 million shares of Flushing Financial common stock are issued in the merger;

(3) earnings per share projections for Atlantic Liberty and Flushing Financial are consistent with internal projections as discussed with management of both

Table of Contents

companies; and (4) purchase accounting adjustments, charges and transaction costs associated with the merger and cost savings determined by the senior management of Flushing Financial. The analysis indicated that for the year ending December 31, 2006, the merger would be slightly accretive to the projected earnings per share of Flushing Financial and, at June 30, 2006, the assumed closing date for the merger, accretive to the tangible book value per share of Flushing Financial. Additionally, Sandler O Neill noted that Atlantic Liberty shareholders would own 7.4% of the combined company at closing.

Atlantic Liberty has agreed to pay Sandler O Neill a transaction fee in connection with the merger of approximately \$425,000 (based on the closing price of Flushing Financial stock on December 19, 2005), \$50,000 of which was payable upon signing of the definitive agreement and the balance of which is contingent and payable upon consummation of the merger. Atlantic Liberty has also agreed to pay Sandler O Neill fees of \$125,000 for rendering its opinion, which will be credited against the portion of the transaction fee payable upon consummation of the merger. Atlantic Liberty has also agreed to reimburse certain of Sandler O Neill's reasonable out-of-pocket expenses incurred in connection with its engagement and to indemnify Sandler O Neill and its affiliates and their respective partners, directors, officers, employees, agents, and controlling persons against certain expenses and liabilities, including liabilities under securities laws.

Sandler O Neill has in the past provided certain other investment banking services to Atlantic Liberty and has received compensation for such services. Sandler O Neill also has provided certain investment banking services to Flushing Financial in the past and has received compensation for such services and may provide, and receive compensation for, such services in the future, including during the period prior to the closing of the merger. In the ordinary course of its business as a broker-dealer, Sandler O Neill may purchase securities from and sell securities to Atlantic Liberty and Flushing Financial and their respective affiliates and may actively trade the debt or equity securities of Atlantic Liberty and Flushing Financial and their respective affiliates for its own account and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities.

Flushing Financial's Reasons for the Merger

The Flushing Financial board of directors expects the merger with Atlantic Liberty to enhance Flushing Financial's banking franchise and competitive position, in particular in Brooklyn, New York. The merger also increases Flushing Financial's operating and marketing scale.

The Flushing Financial board of directors consulted with Flushing Financial management as well as financial and legal advisors and determined that the merger is in the best interest of Flushing Financial and Flushing Financial's stockholders. In reaching its conclusion to approve the merger agreement, the Flushing Financial board considered the following factors as generally supporting its decision to enter into the merger agreement:

- (i) The effectiveness of the merger as a method of implementing and accelerating Flushing Financial's strategies for expanding Flushing Financial's franchise;
- (ii) Its understanding of Flushing Financial's business, operations, financial condition, earnings and prospects and of Atlantic Liberty's business, operations, financial condition, earnings and prospects; and
- (iii) The reports of Flushing Financial management and the financial presentations by Keefe Bruyette & Woods, Inc., financial advisor to Flushing Financial, concerning the operations, financial condition and prospects of Atlantic Liberty and the expected financial impact of the merger on the combined company.

The Flushing Financial board of directors also considered potential risks associated with the merger in connection with its deliberations of the proposed transaction, including the challenges of integrating Atlantic Liberty's business, operations and workforce with those of Flushing Financial, the need to obtain Atlantic Liberty stockholder and regulatory approvals in order to complete the transaction, and the risks associated with achieving the anticipated cost savings.

Table of Contents

The Flushing Financial board of directors considered all of these factors as a whole and, on balance, concluded that they supported a favorable determination to enter into the merger agreement.

The foregoing discussion of the information and factors considered by the Flushing Financial board of directors is not exhaustive, but includes the material factors considered by the Flushing Financial board of directors. In view of the wide variety of factors considered by the Flushing Financial board of directors in connection with its evaluation of the merger and the complexity of these matters, the Flushing Financial board of directors did not consider it practical to, nor did it attempt to, quantify, rank or otherwise assign relative weights to the specific factors that it considered in reaching its decision. In considering the factors described above, individual members of the Flushing Financial board of directors may have given different weights to different factors.

On the basis of these considerations, the merger agreement was unanimously approved by Flushing Financial's board of directors.

Merger Consideration; Cash or Stock Election

Merger Consideration. Under the terms of the merger agreement, at the effective time of the merger, each outstanding share of Atlantic Liberty common stock (other than dissenting shares and shares held by Flushing Financial or by Atlantic Liberty as treasury stock) will be converted into the right to receive, at the election of the holder of such share, either:

\$24.00 in cash (without interest); or

1.43 shares of Flushing Financial common stock; or

a combination of cash plus shares of Flushing Financial common stock.

No fractional shares of Flushing Financial common stock will be issued in connection with the merger. Instead, Atlantic Liberty stockholders will receive, without interest, a cash payment from Flushing Financial equal to the product of the fractional share interest they otherwise would have received, and the value of Flushing Financial common stock. For this purpose, Flushing Financial common stock will be valued at the average of its daily closing sales prices during the five consecutive trading days immediately preceding the completion date of the merger.

Based on the closing price of \$ _____ per share of Flushing Financial common stock on _____, 2006, the latest practicable date prior to the distribution of this proxy statement/prospectus, the value of 1.43 shares of Flushing Financial common stock would be \$ _____. If this price changes to, for example, \$ _____ or \$ _____, then the value of 1.43 shares of Flushing Financial common stock would be \$ _____ or \$ _____, as the case may be. We cannot give you any assurance as to whether or when the merger will be completed, and you are advised to obtain current market quotations for Flushing Financial common stock. For more information about the stock prices of Flushing Financial, see Flushing Financial Stock Trading and Dividend Information below.

Cash or Stock Election. All elections by Atlantic Liberty stockholders are subject to the allocation and proration procedures described in the merger agreement. These procedures are intended to ensure that 65% of the outstanding shares of Atlantic Liberty common stock will be converted into the right to receive Flushing Financial common stock, and the remaining 35% of the outstanding shares of Atlantic Liberty common stock will be converted into the right to receive cash.

It is unlikely that elections will be made in the exact proportions provided for in the merger agreement. As a result, the merger agreement describes procedures to be followed if Atlantic Liberty stockholders in the aggregate elect to receive more or less of Flushing Financial common stock than Flushing Financial has agreed to issue. These procedures are summarized below.

If Flushing Financial common stock is oversubscribed: If Atlantic Liberty stockholders elect to receive more Flushing Financial common stock than Flushing Financial has agreed to issue in the merger, then all Atlantic Liberty stockholders who have elected to receive cash or who have made no election will receive cash for their Atlantic Liberty shares and all stockholders who have

Table of Contents

elect to receive Flushing Financial common stock will receive a pro rata portion of the available Flushing Financial shares plus cash for those shares not converted into Flushing Financial common stock.

If Flushing Financial common stock is undersubscribed: If Atlantic Liberty stockholders elect to receive fewer shares of Flushing Financial common stock than Flushing Financial has agreed to issue in the merger, and

the number of shares as to which Atlantic Liberty stockholders have made no election is less than or equal to this shortfall, then all Atlantic Liberty stockholders who have elected to receive Flushing Financial common stock or who have made no election will receive Flushing Financial common stock, and all Atlantic Liberty stockholders who have elected to receive cash will receive a pro rata portion of the available cash consideration plus Flushing Financial shares for those Atlantic Liberty shares not converted into cash; or if

the number of no election shares is greater than the shortfall, then all Atlantic Liberty stockholders who have elected to receive Flushing Financial common stock will receive Flushing Financial common stock, all Atlantic Liberty stockholders who have elected to receive cash will receive cash, and all Atlantic Liberty stockholders who made no election will receive a pro rata portion of the remaining available cash consideration plus Flushing Financial shares for those Atlantic Liberty shares not converted into cash.

Neither Atlantic Liberty nor Flushing Financial is making any recommendation as to whether Atlantic Liberty stockholders should elect to receive cash or Flushing Financial common stock in the merger. Each Atlantic Liberty stockholder must make his or her own decision with respect to such election.

No guarantee can be made that you will receive the amounts of cash or stock you elect. As a result of the allocation procedures and other limitations outlined in this document and in the merger agreement, you may receive Flushing Financial common stock or cash in amounts that vary from the amounts you elect to receive.

Subject to the allocation procedures described above, as of the date hereof, Messrs. Donohue and Gilfillan intend to elect to receive shares of Flushing Financial common stock in exchange for the shares of Atlantic Liberty common stock each owns at the effective time of the merger.

Employees who hold allocated shares of Atlantic Liberty common stock in their ESOP accounts will be able to direct the ESOP trustee as to whether to make an election to receive cash, Flushing Financial common stock or a combination of cash and Flushing Financial common stock for their allocated shares. For any allocated shares for which no directions are received and for any unallocated shares, the ESOP trustee will make an election to receive cash or Flushing Financial common stock, in the same proportion as the elections which the ESOP trustee received from other ESOP participants, unless the ESOP trustee determines that it may not, consistent with its fiduciary duties, make such election for such shares, in which case it will make elections for the shares in the manner as it, in its discretion, determines to be in the best interests of the participants. Similarly, employees who hold shares of Atlantic Liberty common stock in their 401(k) Plan accounts will be able to direct the 401(k) Plan trustee to make an election to receive cash or Flushing Financial common stock or a combination of cash and Flushing Financial common stock for their accounts. Participants in the 401(k) Plan and ESOP will receive additional information regarding their rights under these plans.

Election Procedures; Surrender of Stock Certificates

If you are a record holder of Atlantic Liberty common stock, an election form will be provided to you under separate cover. The election form will entitle you to elect to receive cash, Flushing Financial common stock, or a combination of cash and Flushing Financial common stock, or to make no election with respect to the merger consideration that you wish to receive.

To make a valid election, you must submit a properly completed election form to Computershare Limited, formerly EquiServe Trust Company, NA, which will be acting as the exchange agent, on or before 5:00 p.m., New York City time, on the 20th day following the mailing of the election form. Computershare Limited will act as

Table of Contents

exchange agent in the merger and in that role will process the exchange of Atlantic Liberty common stock certificates for cash and/or Flushing Financial common stock. Shortly after the merger, the exchange agent will allocate cash and shares of Flushing Financial common stock among Atlantic Liberty stockholders, consistent with their elections and the allocation and proration procedures. If you do not submit an election form, you will receive instructions from the exchange agent on where to surrender your Atlantic Liberty stock certificates after the merger is completed. **Please do not forward your Atlantic Liberty stock certificates and election form with your proxy cards. Stock certificates and election forms should be returned to the exchange agent in accordance with the instructions contained in the election form.**

An election form will be deemed properly completed only if accompanied by stock certificates representing all shares of Atlantic Liberty common stock covered by the election form (or an appropriate guarantee of delivery), together with executed transmittal materials included with the election form. You may change your election at any time prior to the election deadline by written notice accompanied by a properly completed and signed, revised election form received by the exchange agent prior to the election deadline. You may revoke your election by written notice received by the exchange agent prior to the election deadline. All elections will be revoked, and share certificates returned, automatically if the merger agreement is terminated. If you have a preference for receiving either Flushing Financial common stock and/or cash for your Atlantic Liberty common stock, you should complete and return the election form. If you do not make an election, you will be allocated Flushing Financial common stock and/or cash depending on the elections made by other Atlantic Liberty stockholders. You should be aware, however, that if you make an election you will not be able to sell or otherwise transfer your shares of Atlantic Liberty common stock unless you properly withdraw your election prior to the election deadline.

If stock certificates for Atlantic Liberty common stock are not immediately available or time will not permit the election form and other required documents to reach the exchange agent prior to the election deadline, Atlantic Liberty shares may be properly exchanged provided that:

1. such exchanges are made by or through a member firm of the National Association of Securities Dealers, Inc., or another registered national securities exchange, or by a commercial bank or trust company having an office, branch or agency in the United States;
2. the exchange agent receives, prior to the election deadline, a properly completed and duly executed notice of guaranteed delivery substantially in the form provided with the election form (delivered by hand, mail, telegram, telex or facsimile transmission); and
3. the exchange agent receives, prior to the election deadline, the certificates for all exchanged Atlantic Liberty shares, or confirmation of the delivery of all such certificates into the exchange agent's account with the Depository Trust Company in accordance with the proper procedures for such transfer, together with a properly completed and duly executed election form and any other documents required by the election form.

Atlantic Liberty stockholders who did not submit a properly completed election form or revoke their election form prior to the election deadline will have their shares of Atlantic Liberty common stock designated as non-election shares.

Atlantic Liberty stockholders who hold their shares of common stock in street name through a bank, broker or other financial institution, and who wish to make an election, should seek instructions from the institution holding their shares concerning how to make the election.

Flushing Financial will deposit with the exchange agent the shares representing Flushing Financial's common stock and cash to be issued to Atlantic Liberty stockholders in exchange for their shares of Atlantic Liberty common stock. Within five business days after the completion of the merger, the exchange agent will mail to Atlantic Liberty stockholders who did not submit election forms or who have revoked such forms a letter of transmittal, together with instructions for the exchange of their Atlantic Liberty stock certificates for the merger consideration. Upon surrendering his or her certificate(s) representing shares of Atlantic Liberty common stock, together with the signed letter of transmittal, the Atlantic Liberty stockholder shall be entitled to receive, as applicable: (i) certificate(s) representing a number of whole shares of Flushing Financial common stock (if any)

Table of Contents

determined in accordance with the exchange ratio or (ii) a check representing the amount of cash (if any) to which such holder shall have become entitled to and (iii) a check representing the amount of cash in lieu of fractional shares, if any. Until you surrender your Atlantic Liberty stock certificates for exchange after completion of the merger, you will not be paid dividends or other distributions declared after the merger with respect to any Flushing Financial common stock into which your shares have been exchanged. No interest will be paid or accrued to Atlantic Liberty stockholders on the cash consideration, cash in lieu of fractional shares or unpaid dividends and distributions, if any. After the completion of the merger, there will be no further transfers of Atlantic Liberty common stock. Atlantic Liberty stock certificates presented for transfer will be canceled and exchanged for the merger consideration.

If your stock certificates have been lost, stolen or destroyed, you will have to prove your ownership of these certificates and that they were lost, stolen or destroyed before you receive any consideration for your shares. Upon request, Computershare Limited will send you instructions on how to provide evidence of ownership.

If any certificate representing shares of Flushing Financial's common stock is to be issued in a name other than that in which the certificate for shares surrendered in exchange is registered, or cash is to be paid to a person other than the registered holder, it will be a condition of issuance or payment that the certificate so surrendered be properly endorsed or otherwise be in proper form for transfer and that the person requesting the exchange either:

pay to the exchange agent in advance any transfer or other taxes required by reason of the issuance of a certificate or payment to a person other than the registered holder of the certificate surrendered, or

establish to the satisfaction of the exchange agent that the tax has been paid or is not payable.

Any portion of the cash or shares of Flushing Financial common stock made available to the exchange agent that remains unclaimed by Atlantic Liberty stockholders for six months following the effective time of the merger will be returned to Flushing Financial. After six months after the effective time, any Atlantic Liberty stockholder who has not exchanged shares of Atlantic Liberty common stock for the merger consideration in accordance with the merger agreement may look only to Flushing Financial for payment of the merger consideration for these shares and any unpaid dividends or distributions. Nonetheless, Flushing Financial, Atlantic Liberty, the exchange agent or any other person will not be liable to any Atlantic Liberty stockholder for any amount properly delivered to a public official under applicable abandoned property, escheat or similar laws.

Treatment of Atlantic Liberty Stock Options

At the effective time of the merger, each holder of an option to purchase a share of Atlantic Liberty common stock may elect to have such option converted to options to purchase Flushing Financial common stock or cashed out. For Atlantic Liberty option holders who elect to have all or a portion of their options converted into options to purchase Flushing Financial common stock, the number of Flushing Financial shares to be subject to the new option will be equal to the product of (a) the exchange ratio of 1.43 and (b) the number of shares of Atlantic Liberty common stock subject to the Atlantic Liberty options being converted. The exercise price per share of Flushing Financial common stock under the new option will be equal to the quotient of (i) the per share exercise price of the Atlantic Liberty option being converted and (ii) the exchange ratio of 1.43, rounded up to the next whole cent. The duration and other terms of the new option will be the same as the original Atlantic Liberty options being converted.

To the extent an Atlantic Liberty option holder does not elect to convert the options as described above, such options will be cancelled and will cease to be exercisable. In consideration for the cancellation, Flushing Financial will, with respect to each such outstanding Atlantic Liberty option, pay to the holder an amount equal to the excess (if any) of \$24.00 over the exercise price of the outstanding Atlantic Liberty option, less any required tax withholding.

Table of Contents

Employee Matters

Atlantic Liberty Savings' ESOP will be terminated as of, or prior to, consummation of the merger. The ESOP loan will be paid in full and the assets of the ESOP will be allocated and distributed to the ESOP participants in cash or shares of Flushing Financial common stock. See Material United States Federal Income Tax Consequences of the Merger below for a discussion of material federal income tax treatment of participant accounts under the ESOP.

Flushing Financial will review all other Atlantic Liberty compensation and employee benefit plans that do not otherwise terminate (whether pursuant to the terms of any such plan or the merger agreement) to determine whether to maintain, terminate or continue such plans. In the event employee compensation or benefits as currently provided by Atlantic Liberty or Atlantic Liberty Savings are changed or terminated by Flushing Financial, Flushing Financial has agreed to provide compensation and benefits that are, in the aggregate, substantially similar to the compensation and benefits provided to similarly situated Flushing Financial employees.

All Atlantic Liberty Savings employees who become employees of Flushing Financial at the effective time of the merger generally will be given credit for service at Atlantic Liberty Savings or its subsidiaries for eligibility to participate in, and the satisfaction of vesting requirements (but not for pension benefit accrual purposes) under, Flushing Financial's compensation and benefit plans. Pursuant to the merger agreement, Flushing Financial and Flushing Savings Bank agreed to use commercially reasonable efforts to provide employment to non-executive employees of Atlantic Liberty, but this does not restrict the ability to terminate employment of any employee or make changes to employee benefit programs from time to time.

If Flushing Financial terminates any health plan of Atlantic Liberty, it will make available to employees who continue employment with Flushing Financial health coverage on the same basis as it provides to Flushing Financial employees. Atlantic Liberty's employees covered by the Flushing Financial plan will receive credit for co-payment and deductibles paid under Atlantic Liberty's health plan.

See Interests of Directors and Executive Officers In the Merger below for a discussion of employment agreements.

Interests of Directors and Executive Officers in the Merger

Employment Agreements. Atlantic Liberty is party to employment agreements with Barry M. Donohue, President and Chief Executive Officer of Atlantic Liberty, and William M. Gilfillan, Executive Vice President, Chief Financial Officer and Corporate Secretary of Atlantic Liberty. Atlantic Liberty Savings is also party to employment agreements with Messrs. Donohue and Gilfillan. The consummation of the merger constitutes a change in control under the employment agreements.

In the event of a change in control, the executive would be entitled to the payment of a sum equal to three times the sum of his base salary and the highest rate of bonus awarded to him during the prior three years, payable, at his election, in a lump sum or bi-weekly during the remaining term of the agreement. Also, the executive would be entitled to a cash payment equal to the difference, if any, between (i) the present value of benefits to which he would be entitled under Atlantic Liberty Savings' pension plan if he continued working for Atlantic Liberty Savings for an additional 36 months, over (ii) the present value of the benefits to which he is actually entitled under Atlantic Liberty Savings' pension plan due to his termination. The executive also would be entitled to a cash payment equal to the present value of Atlantic Liberty Savings' contributions that would have been made on his behalf under the

401(k) Plan and ESOP and any other defined contribution plan maintained by Atlantic Liberty Savings if he had continued working for Atlantic Liberty Savings for 36 months following his termination. In addition, the executive would be entitled to continuation of life, medical, dental and disability benefits for a period of 36 months after termination, or in lieu thereof, a cash payment of no less than \$12,000 per year for three years. He also would become vested in any outstanding unvested stock options or shares of restricted stock that have been awarded to him. In the event payments to the executive include an excess parachute payment as defined in the Internal Revenue Code, payments under each of the employment agreements with Atlantic Liberty Savings would be reduced in order to avoid this result. The employment agreements between Messrs. Donohue and Gilfillan and Atlantic Liberty would make up any reduction in benefits by virtue of being considered an excess parachute

Table of Contents

payment and would reimburse the executive for any additional taxes owed as a result of having such excess parachute payment.

Section 6.11 of the merger agreement requires that as a condition to closing the merger, each of Messrs. Donohue and Gilfillan enter into a settlement agreement to accept in full settlement of his rights under the employment agreements the amounts and benefits agreed upon between the parties and to limit such amounts so that no amounts are subject to tax under Section 280G of the Internal Revenue Code. Accordingly, Flushing Financial, Atlantic Liberty, Mr. Donohue and Mr. Gilfillan negotiated and entered into settlement letters (each a Settlement Agreement), Non-Competition Agreements and Addenda to the employment agreements, and negotiated the terms and conditions of the Termination Agreement and Release for each of Messrs. Donohue and Gilfillan. These documents quantify the payments to be made to these executives as a result of the merger and are intended to comply with Section 6.11 of the merger agreement, and generally change the timing of certain payments to the executives that may otherwise be construed as an excess parachute payment within the meaning of Section 280G of the Internal Revenue Code, or require indemnification for any excise taxes under Section 280G of the Internal Revenue Code or to satisfy the requirements of Section 409A of the Internal Revenue Code. The amounts payable to Mr. Donohue and Mr. Gilfillan, respectively, under the Settlement Agreements, the Termination Agreements and Releases, the Addenda to employment agreements and the Non-Competition Agreements are not greater than the amounts that would otherwise be payable to Mr. Donohue and Mr. Gilfillan under their respective employment agreements in the event of a change in control and termination of employment. Each of these agreements is described more specifically below.

Mr. Donohue and Mr. Gilfillan entered into Non-Competition Agreements with Flushing Financial, dated December 20, 2005, that provide that for a period of two years after the effective time of the merger, Mr. Donohue and Mr. Gilfillan, respectively, will not, without the prior written consent of Flushing Financial, directly or indirectly be associated with any business whose products or activities compete in whole or in part with the products or activities of Flushing Financial or its subsidiaries within a 25 mile radius of the offices of Flushing Financial or any of its subsidiaries. In exchange for these covenants, Flushing Financial will pay Mr. Donohue the sum of \$550,000 (less applicable withholding taxes), of which \$275,000 is payable on the effective date of the merger and the remaining \$275,000 is payable on the first anniversary of the effective date of the merger, and Flushing Financial will pay Mr. Gilfillan the sum of \$525,000 (less applicable withholding taxes), of which \$262,500 is payable on the effective date of the merger, and the remaining \$262,500 is payable on the first anniversary of the effective date of the merger.

Pursuant to the merger agreement, each of Mr. Donohue and Mr. Gilfillan entered into a Settlement Agreement, dated December 20, 2005, with Flushing Financial, Atlantic Liberty and Atlantic Liberty Savings. Mr. Donohue's Settlement Agreement provides that, in consideration of his execution and delivery of the Settlement Agreement, Atlantic Liberty will pay or cause Atlantic Liberty Savings to pay to Mr. Donohue the sum of \$375,000 (subject to applicable taxes) prior to December 31, 2005. The Settlement Agreement also provides that Atlantic Liberty will accelerate or cause the acceleration of the vesting date of all shares of restricted stock issued to Mr. Donohue to be fully vested and nonforfeitable not later than December 31, 2005 and will take or cause to be taken all necessary actions to cause each option to purchase common stock of Atlantic Liberty that is outstanding to Mr. Donohue under the Atlantic Liberty Stock Benefit Plan to be fully vested and exercisable for a period of 10 business days prior to the closing of the merger. The Settlement Agreement also provides that, in consideration for Mr. Donohue's execution and delivery of a Termination Agreement and Release (described below), on the closing date of the merger, Atlantic Liberty will pay or cause to be paid to Mr. Donohue the sum of \$965,632 (subject to applicable taxes). The Settlement Agreement further provides that Atlantic Liberty Savings will preserve, and Flushing Financial will honor, the terms of the split dollar insurance arrangement in effect for Mr. Donohue, under which a permanent life insurance benefit in the amount of \$699,966 will be provided on and after the closing date of the merger. Mr. Donohue acknowledged in the Settlement Agreement that if certain conditions are met, then the aggregate amounts payable to him, and any benefits provided to him shall be limited or cut-back so that none of the payments and benefits will be an excess parachute payment within the meaning of Section 280G of the Internal Revenue Code or subject to the excise tax under Section 4999 of the Internal Revenue Code.

The Settlement Agreement with Mr. Gilfillan contains similar provisions to Mr. Donohue's agreement, except that the amounts payable to Mr. Gilfillan vary from the amounts payable to Mr. Donohue as follows: in consideration of his execution and delivery of the Settlement Agreement, Atlantic Liberty will pay or cause Atlantic

Table of Contents

Liberty Savings to pay to Mr. Gilfillan the sum of \$525,000 (subject to applicable taxes) prior to December 31, 2005; on the closing date of the merger, Atlantic Liberty shall pay or cause to be paid to Mr. Gilfillan the sum of \$679,558 (subject to applicable taxes); and the amount of the permanent life insurance benefit under Mr. Gilfillan's split dollar insurance arrangement is \$639,894.

Pursuant to the merger agreement, Mr. Donohue and Mr. Gilfillan will each enter into a Termination Agreement and Release (Agreement and Release), effective as of the effective time of the merger. Mr. Donohue's Agreement and Release provides that in consideration of the payment by Atlantic Liberty or Atlantic Liberty Savings to Mr. Donohue of \$965,632 (less applicable withholding taxes) on the closing date of the merger, Mr. Donohue, Atlantic Liberty, Atlantic Liberty Savings, Flushing Financial and Flushing Savings Bank agree that Mr. Donohue's employment agreements with Atlantic Liberty and Atlantic Liberty Savings, as amended, will terminate. The Agreement and Release further provides that except for Mr. Donohue's rights or benefits under any tax-qualified employee benefit plan of Atlantic Liberty or Atlantic Liberty Savings, or any split dollar insurance arrangement contemplated in Mr. Donohue's Settlement Agreement, Mr. Donohue releases completely and forever discharges Atlantic Liberty, Atlantic Liberty Savings, Flushing Financial and Flushing Savings Bank, and each of their successors and assigns, from any obligations under the employment agreements. Furthermore, Mr. Donohue, Atlantic Liberty and Atlantic Liberty Savings agree that, upon the effective date of the merger, the Agreement and Release shall apply to extinguish any obligations of Atlantic Liberty and Atlantic Liberty Savings (or their successors or assigns) to indemnify Mr. Donohue or otherwise provide Mr. Donohue with reimbursement for any excise taxes under Section 4999 of the Internal Revenue Code and any income and related employment taxes.

Mr. Gilfillan's Agreement and Release contains similar provisions to Mr. Donohue's Agreement and Release, except that Mr. Gilfillan's Agreement and Release provides for the payment of \$679,558 to Mr. Gilfillan (less applicable taxes) on the closing date of the merger, in consideration for his entry into the Agreement and Release.

Mr. Donohue and Mr. Gilfillan each entered into an Addendum to Employment Agreement with Atlantic Liberty and Atlantic Liberty Savings, dated December 20, 2005, to conform to the provisions and requirements of new Section 409A of the Internal Revenue Code concerning payments of executive compensation. These amendments are technical amendments in response to changes in the tax laws and will not apply if the merger is consummated, since the Settlement Agreements set forth the terms of payment.

As discussed above, the amounts payable to Mr. Donohue and Mr. Gilfillan, respectively, under the Settlement Agreements, the Termination Agreements and Releases and the Non-Competition Agreements are not greater than the amounts that would otherwise be payable to Mr. Donohue and Mr. Gilfillan under their respective employment agreements in the event of a change in control and termination of employment.

Atlantic Liberty Savings Directors' Retirement Plan. Pursuant to the merger agreement, Atlantic Liberty agreed to cause Atlantic Liberty Savings to amend the Atlantic Liberty Savings Directors' Retirement Plan by no later than December 31, 2005, in order to cause a change in control to be a triggering event for distributions and to require the amounts due to each director to be paid in a lump sum or in installments over five years (in compliance with Section 409A of the Internal Revenue Code). At the effective time of the merger, Atlantic Liberty Savings will pay these amounts, either in a lump sum or in installments over five years, to the Plan's participants.

ESOP. Pursuant to the terms of the merger agreement, Atlantic Liberty will terminate the ESOP with such termination to be effective as of, or prior to, the consummation of the merger. Upon the termination of the ESOP, any unvested benefits thereunder shall immediately vest. Upon the receipt of a favorable determination letter for termination of the ESOP from the Internal Revenue Service, the account balances in the ESOP will be distributed to participants and beneficiaries in accordance with applicable law and the ESOP. In connection with the termination of the ESOP, and prior to any final distribution to participants, the trustee of the ESOP will utilize funds in the ESOP suspense account resulting from the exchange of unallocated shares for the acquisition consideration to repay the outstanding loan to the ESOP, and any remaining amounts in the ESOP suspense account will be allocated to the accounts of participating Atlantic Liberty Savings' ESOP participants and beneficiaries in accordance with applicable law and the ESOP. As of December 20, 2005 the ESOP held approximately 95,815 unallocated shares of Atlantic Liberty common stock in the suspense account as collateral for the ESOP loan and the outstanding principal balance of the loan to the ESOP was approximately \$958,153. Assuming an ESOP termination in 2006, it is

Table of Contents

anticipated that approximately 47,907 shares will be allocated to the accounts of Atlantic Liberty Savings ESOP participants and beneficiaries in connection with the termination of the ESOP.

Flushing Financial Advisory Board. Pursuant to the merger agreement, effective as of the effective date of the merger, Flushing Financial will establish an Advisory Board, which will consist of each individual who serves on the board of directors of Atlantic Liberty Savings or Atlantic Liberty, both on the date of the merger agreement and immediately prior to the effective time of the merger, and the current Corporate Secretary of Atlantic Liberty, William M. Gilfillan. Each member of the Advisory Board will receive an annual retainer of \$15,000 and an Advisory Board meeting fee of \$1,000 which will be paid quarterly for each meeting attended. The Advisory Board will remain in effect for a period of three years.

Indemnification. Pursuant to the merger agreement, Flushing Financial has agreed that, for a period of six years after the effective date of the merger, it will indemnify, defend and hold harmless each present and former officer or director of Atlantic Liberty or any of its subsidiaries against all losses, claims, damages, costs, expenses (including attorneys' fees), liabilities, judgments and amounts that are paid in settlement of or in connection with any claim, action, suit, proceeding or investigation, based in whole or in part on, or arising in whole or in part out of, the fact that such person is or was a director or officer of Atlantic Liberty or any of its subsidiaries if such action or proceeding pertains to any matter of fact arising, existing or occurring before the effective date of the merger to the fullest extent permitted under Delaware law (to the extent not prohibited by federal law), Flushing Financial's certificate of incorporation and bylaws and Atlantic Liberty's certificate of incorporation and bylaws. Flushing Financial will pay expenses in advance of the final disposition of any such action or proceeding to the fullest extent permitted under Delaware law (to the extent not prohibited by federal law), provided that the person to whom such expenses are advanced agrees to repay such expenses if it is ultimately determined that such person is not entitled to indemnification.

Directors and Officers Insurance. Flushing Financial has further agreed, for a period of six years after the effective date of the merger, to cause the persons serving as officers and directors of Atlantic Liberty immediately prior to the effective date to continue to be covered by Atlantic Liberty's current directors' and officers' liability insurance policies with respect to acts or omissions occurring prior to the effective date which were committed by such officers and directors in their capacity as such. However, Flushing Financial may substitute policies of at least the same coverage and amounts containing terms and conditions that are not materially less favorable than Atlantic Liberty's current policies, but in no event will Flushing Financial be required to expend more than 150% of the annual cost currently expended by Atlantic Liberty with respect to such insurance.

Conduct of Business Pending the Merger

The merger agreement contains various restrictions on the operations of Atlantic Liberty and Flushing Financial before the effective time of the merger. In general, the merger agreement obligates Atlantic Liberty and Flushing Financial to conduct their businesses in the usual, regular and ordinary course of business and to use reasonable efforts to preserve intact their business organizations and assets and maintain their rights and franchises. In addition, Atlantic Liberty has agreed that, except as expressly contemplated by the merger agreement, without the prior written consent of Flushing Financial, it will not, among other things:

change or waive any provision of its certificate of incorporation or bylaws;

issue any additional shares of capital stock except that Atlantic Liberty may issue shares of Atlantic Liberty common stock under presently outstanding options, or declare or pay any dividend other than its regular quarterly dividend consistent with past practice (provided the declaration of the last quarterly dividend by Atlantic Liberty prior to the consummation of the merger will be coordinated with Flushing Financial so that stockholders do not receive dividends on both Atlantic Liberty common stock and Flushing Financial common stock received in the merger) and any Atlantic Liberty subsidiary may pay dividends to its parent company (as permitted under applicable law or regulations);

Table of Contents

enter into, amend in any material respect or terminate any material contract or agreement involving a payment by Atlantic Liberty or Atlantic Liberty Savings of more than \$25,000, except in the ordinary course of business;

other than as set forth in the merger agreement, open or close any branch or automated banking facility;

enter into any new line of business or introduce any new products;

grant or agree to pay any bonus, severance or termination payment to, or enter into, renew or amend any employment agreement, severance agreement and/or supplemental executive agreement with, or increase in any manner the compensation or fringe benefits of, any of its directors, officers or employees, except (i) as may be required by applicable law or pursuant to existing commitments, (ii) merit pay increases to non-executive employees, (iii) the payment of bonuses for the year ending December 31, 2005, to the extent that these bonuses are accrued in accordance with accounting principles generally accepted in the United States of America, provided that such bonuses are consistent, as to amount and persons covered, with past practice, (iv) the payment immediately prior to the effective time of bonuses for the portion of 2006 that precedes the effective time of the merger and that do not exceed the bonus paid to the particular recipient for 2005 multiplied by a fraction the numerator of which is the number of calendar months in 2006 that begin before the effective time and the denominator of which is 12, and (v) Atlantic Liberty Savings may hire at-will, non-officer employees to fill vacancies that may arise in the ordinary course of business;

enter into or materially modify any pension, retirement, stock option, stock purchase, stock appreciation right, stock grant, savings, profit sharing, deferred compensation, supplemental retirement, consulting, bonus, group insurance or other employee benefit, incentive or welfare plan or arrangement, or any related trust agreement, in respect of any of its directors, officers or employees, or make any contributions to any defined contribution or defined benefit plan not in the ordinary course of business consistent with past practice, provided, however, that Atlantic Liberty will accelerate the vesting of stock options and restricted stock held by Messrs. Donohue and Gilfillan pursuant to the terms of their Settlement Agreements;

merge or consolidate Atlantic Liberty or any Atlantic Liberty subsidiary with any other corporation, sell or lease all or any substantial portion of the assets or business, or make any acquisition of all or any substantial portion of the business or assets of any other person other than in connection with foreclosures, settlements in lieu of foreclosure, troubled loan or debt restructuring or the collection of any loan or credit arrangement between Atlantic Liberty or any Atlantic Liberty subsidiary and any other person; enter into a purchase and assumption transaction with respect to deposits and liabilities; permit the revocation or surrender by any Atlantic Liberty subsidiary of its certificate of authority to maintain, or file an application for the relocation of, any existing branch office, or file an application for a certificate of authority to establish a new branch office;

enter into a purchase and assumption transaction with respect to deposits and liabilities or incur deposit liabilities, permit the revocation or surrender by any Atlantic Liberty subsidiary of its certificate of authority to maintain, or file an application for the relocation of, any existing branch office, or file an application for a certificate of authority to establish a new branch office;

sell or otherwise dispose of the capital stock of Atlantic Liberty or any asset of Atlantic Liberty or any Atlantic Liberty subsidiary other than in the ordinary course of business consistent with past practice; except for transactions with the Federal Home Loan Bank of New York, subject any asset to a lien or other encumbrance, other than in the ordinary course of business consistent with past practice; incur any indebtedness for borrowed money (or guarantee any indebtedness for borrowed money), except in the ordinary course of business consistent with past practice;

take any action which would result in any of the representations and warranties of Atlantic Liberty set forth in the merger agreement becoming untrue or any of the closing conditions set forth in the merger agreement not being satisfied, except as may be required by law;

Table of Contents

change any accounting method or practice, except as required by generally accepted accounting principles in the United States or any bank regulator responsible for regulating Atlantic Liberty or Atlantic Liberty Savings;

waive, release, grant or transfer any material rights of value or modify or change in any material respect any existing material agreement or indebtedness to which Atlantic Liberty or any Atlantic Liberty subsidiary is a party, other than in the ordinary course of business, consistent with past practice;

purchase any equity securities, or purchase any security for its investment portfolio, inconsistent with Atlantic Liberty's or any Atlantic Liberty subsidiary's current investment policy;

except for (i) commitments issued prior to December 20, 2005 which have not yet expired and have been disclosed in connection with the merger agreement and (ii) the renewal of existing lines of credit, make any new loan or other credit facility commitment in excess of \$1,000,000 for a commercial real estate loan or \$750,000 for a construction loan or a residential loan, or in any amount for a commercial business loan;

except as disclosed in connection with the merger agreement, renew, extend or modify any other transaction (other than a deposit transaction) with any affiliate other than pursuant to Atlantic Liberty's existing Insider Loan Policy;

enter into any futures contract, option, interest rate caps, interest rate floors, interest rate exchange agreement or other agreement, or take any other action for purposes of hedging the exposure of its interest-earning assets and interest-bearing liabilities to changes in market rates of interest;

except for the execution of the merger agreement, and actions taken or which will be taken in accordance with the merger agreement and performance under the merger agreement, take any action that would give rise to a right of payment to any individual under any employment agreement;

make any change in policies in existence on December 20, 2005 with regard to the extension of credit, or the establishment of reserves with respect to the possible loss or the charge off of losses incurred on such loans, investments, asset/liability management, or other material banking policies in any material respect except as may be required by changes in applicable law or regulations by any federal or state banking regulator;

except for the execution of the merger agreement and the transactions contemplated in the merger agreement, take any action that would give rise to an acceleration of the right to payment to any individual under any Atlantic Liberty compensation or benefit plan;

except as disclosed in connection with the merger agreement, make any capital expenditures in excess of \$50,000 individually or \$100,000 in the aggregate, other than pursuant to existing binding commitments and other than expenditures necessary to maintain existing assets in good repair;

except as disclosed in connection with the merger agreement, purchase, or otherwise acquire, or sell or otherwise dispose of, any assets or incur any liabilities other than in the ordinary course of business consistent with past practices and policies;

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sell any participation interest in any loan (other than sales of loans secured by one- to four-family real estate that are consistent with past practice) unless Flushing Savings Bank has been given the first opportunity and a reasonable time to purchase any loan participation being sold;

undertake or, enter into any lease, contract or other commitment for its account, other than in the normal course of providing credit to consumers as part of its banking business, involving a payment by Atlantic Liberty or Atlantic Liberty Savings, of more than \$25,000 annually, or containing any financial commitment extending beyond December 20, 2006;

pay, discharge, settle or compromise any claim, action, litigation, arbitration or proceeding, other than any such payment, discharge, settlement or compromise in the ordinary course of business

Table of Contents

consistent with past practice that involves solely money damages in an amount not in excess of \$25,000 individually or \$50,000 in the aggregate, and that does not create precedent for other pending or potential claims, actions, litigation, arbitration or proceedings; or

agree to do any of the foregoing.

Flushing Financial has agreed that, without the prior written consent of Atlantic Liberty, it will not, among other things, voluntarily take any action that would:

adversely affect the ability of the parties to obtain the regulatory approvals for the merger or materially increase the period of time necessary to obtain those approvals;

adversely affect its ability to perform its covenants and agreements under the merger agreement;

result in the representations and warranties contained in the merger agreement not being true and correct on December 20, 2005 or at any future date on or prior to the closing date or in any of the conditions to closing set forth in the merger agreement not being satisfied;

change or waive any provision of its certificate of incorporation or charter, except as required by law; or

change any method, practice or principle of accounting, except as may be required from time to time by generally accepted accounting principles (without regard to any optional early adoption date) or any federal or state banking regulator responsible for regulating Flushing Financial or Flushing Savings Bank.

In addition to these covenants, the merger agreement contains various other customary covenants, including, among other things, access to information, each party's efforts to cause its representations and warranties to be true and correct on the closing date and each party's agreement to use its reasonable best efforts to cause the merger to qualify as a tax-free reorganization for federal income tax purposes.

Representations and Warranties

The merger agreement contains a number of representations and warranties by Flushing Financial and Atlantic Liberty regarding aspects of their respective businesses, financial condition, structure and other facts pertinent to the merger that are customary for a transaction of this kind. They include, among other things, representations as to:

the organization, existence, corporate power and authority and capitalization of each of the companies;

the absence of conflicts with and violations of law and various documents, contracts and agreements;

the absence of any event or circumstance which is reasonably likely to be materially adverse to the companies;

the absence of materially adverse litigation;

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the accuracy of reports and financial statements filed with the Securities and Exchange Commission;

required consents and filings with governmental entities and other approvals required for the merger;

the existence, performance and legal effect of certain contracts;

compliance with applicable laws;

the filing of tax returns, payment of taxes and other tax matters;

loan and investment portfolio matters;

Table of Contents

labor and employee benefit matters; and

compliance with applicable environmental laws.

All representations, warranties and covenants of the parties, other than the covenants in specified sections that relate to continuing matters, terminate upon the closing of the merger.

Conditions to the Merger

The respective obligations of Flushing Financial and Atlantic Liberty to complete the merger are subject to various conditions prior to the merger. The conditions include the following:

approval of the merger agreement by the affirmative vote of a majority of the issued and outstanding shares of Atlantic Liberty;

the absence of any statute, law, regulation, order or decree that would enjoin or prohibit the merger;

approval of the merger by all applicable federal and state regulatory authorities and the expiration of all applicable waiting periods;

the effectiveness of this proxy statement/prospectus under the Securities Act of 1933, no stop order being issued suspending the effectiveness of the registration statement of which this proxy statement/prospectus is a part and no proceedings for that purpose shall have been initiated or threatened by the Securities and Exchange Commission and, if the offer and sale of Flushing Financial's common stock in the merger is subject to the blue sky laws of any state, it shall not be subject to a stop order of any state securities commissioner;

listing with the Nasdaq National Market of the Flushing Financial common stock to be issued to Atlantic Liberty stockholders, subject to official notice of issuance;

the accuracy of the representations and warranties of the parties, and the performance by the parties of all agreements and covenants, subject to the standards set forth in the merger agreement;

the receipt of tax opinions delivered by counsel to Flushing Financial and Atlantic Liberty, respectively, to the effect that (i) the merger will qualify as a reorganization under Section 368(a) of the Internal Revenue Code, (ii) the merger of Atlantic Liberty Savings into Flushing Savings Bank will not adversely affect the merger qualifying as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code, (iii) no gain or loss will be recognized by Flushing Financial, Flushing Savings Bank, Atlantic Liberty or Atlantic Liberty Savings by reason of the merger, (iv) the exchange of Atlantic Liberty common stock to the extent exchanged for Flushing Financial common stock will not give rise to recognition of gain or loss for Federal income tax purposes to the stockholders of Atlantic Liberty, (v) the basis of the Flushing Financial common stock to be received by an Atlantic Liberty stockholder will be the same as the basis of the Atlantic Liberty common stock surrendered pursuant to the merger, increased by any gain recognized by the Atlantic Liberty stockholder as a result of the merger and decreased by any cash received by the Atlantic Liberty stockholder in the merger, and (vi) the holding period applicable to the shares of Flushing Financial common stock to be received by a stockholder of Atlantic Liberty will include the period during which the stockholder held the shares of Atlantic Liberty common stock that were surrendered, provided the Atlantic Liberty common stock surrendered is held as a capital asset at the effective time of the merger;

obtaining all material permits, authorizations, consents, waivers, clearances or approvals required for the lawful consummation of the merger, the failure of which to obtain would have a material adverse effect on Flushing Financial; and

Flushing Financial shall have deposited with an exchange agent cash and certificates for shares of Flushing Financial common stock, together with any related dividends or distributions to be exchanged for shares of common stock of Atlantic Liberty.

Table of Contents

The parties may waive conditions to their obligations unless they are legally prohibited from doing so. Stockholder and regulatory approvals may not be legally waived.

Regulatory Approvals Required for the Merger

General. Atlantic Liberty and Flushing Financial have agreed to use all reasonable efforts to obtain all permits, consents, approvals, non-objections and authorizations of all third parties and governmental entities that are necessary or advisable to consummate the merger. This includes the approval of the Office of Thrift Supervision. Flushing Financial has filed the applications necessary to obtain these regulatory approvals. The merger cannot be completed without such approvals. We cannot assure you that we will obtain the required regulatory approvals, when they will be received or whether there will be conditions in the approvals or any litigation challenging the approvals. We also cannot assure you that the United States Department of Justice or any state attorney general will not attempt to challenge the merger on antitrust grounds, or what the outcome will be if such a challenge is made.

We are not aware of any material governmental approvals or actions that are required prior to the merger other than those described herein. We presently contemplate that we will seek any additional governmental approvals or actions that may be required in addition to those requests for approval currently pending; however, we cannot assure you that we will obtain any such additional approvals or actions.

Office of Thrift Supervision. The merger is subject to approval by the Office of Thrift Supervision. We have filed the required applications, but we have not yet received the Office of Thrift Supervision's approval.

The Office of Thrift Supervision may not approve any transaction that would result in a monopoly or otherwise substantially reduce competition or restrain trade, unless it finds that the anti-competitive effects of the transaction are clearly outweighed by the public interest. In addition, the Office of Thrift Supervision considers the financial and managerial resources of the companies and their subsidiary institutions, the effectiveness of the institutions involved in combating money laundering and the convenience and needs of the communities to be served. Under the Community Reinvestment Act, the Office of Thrift Supervision must take into account the record of performance of each company in meeting the credit needs of its entire community, including low-and moderate-income neighborhoods, served by each company. Flushing Savings Bank has a Satisfactory Community Reinvestment Act rating with the Office of Thrift Supervision. Atlantic Liberty Savings has a Satisfactory Community Reinvestment Act rating with the Office of Thrift Supervision.

Federal law requires publication of notice of, and the opportunity for public comment on, the applications submitted by Flushing Financial and Flushing Savings Bank for approval of the merger, and authorizes the Office of Thrift Supervision to hold a public hearing in connection with the application if it determines that such a hearing would be appropriate. Any such hearing or comments provided by third parties could prolong the period during which the application is subject to review. In addition, under federal law, a period of 30 days must expire following approval by the Office of Thrift Supervision within which period the Department of Justice may file objections to the merger under the federal antitrust laws. If the Department of Justice were to commence an antitrust action, that action would stay the effectiveness of Office of Thrift Supervision approval of the merger unless a court specifically orders otherwise. In reviewing the merger, the Department of Justice could analyze the merger's effect on competition differently than the Office of Thrift Supervision, and thus it is possible that the Department of Justice could reach a different conclusion than the Office of Thrift Supervision regarding the merger's competitive effects.

No Solicitation

Until the merger is completed or the merger agreement is terminated, Atlantic Liberty has agreed that it, its subsidiaries, its officers and its directors will not:

initiate, solicit or knowingly encourage any inquiries or the making of any proposal or offer to acquire Atlantic Liberty, whether by merger, acquisition of 25% or more of Atlantic Liberty's outstanding capital stock or otherwise;

enter into, maintain or continue any discussions or negotiations regarding any such acquisition proposal; or

Table of Contents

agree to or endorse any such other acquisition proposal or authorize or permit any of its officers, directors, or employees or any of its subsidiaries or any representative retained by any of its subsidiaries to take any such action.

Atlantic Liberty shall notify Flushing Financial orally and in writing of all the relevant details relating to all inquiries and proposals which it, any of its subsidiaries or any officer, director, employee, or, to Atlantic Liberty's knowledge, representative of Atlantic Liberty may receive relating to these matters.

Atlantic Liberty may, however, furnish information regarding Atlantic Liberty to, or enter into discussions or negotiations with, any person or entity in response to an unsolicited acquisition proposal by such person or entity if and only to the extent that:

Atlantic Liberty's board of directors determines in good faith, after consultation with its financial and legal advisors, that such proposal, if consummated, is reasonably likely to result in a transaction more favorable to Atlantic Liberty's stockholders from a financial point of view than the merger with Flushing Financial;

Atlantic Liberty's board of directors determines in good faith, after consultation with its financial and legal advisors, that the failure to take such actions would likely cause Atlantic Liberty's board of directors to breach its fiduciary duties to stockholders under applicable law;

Atlantic Liberty promptly notifies Flushing Financial of such inquiries, proposals or offers, the material terms of such inquiries, proposals or offers and the identity of the person making such inquiry, proposal or offer; and

the special meeting of stockholders of Atlantic Liberty has not yet occurred.

Termination; Amendment; Waiver

The merger agreement may be terminated prior to the closing, before or after approval by Atlantic Liberty's stockholders, as follows:

by mutual written agreement of Flushing Financial and Atlantic Liberty;

by a non-breaching party if the other party materially breaches any of the representations or warranties set forth in the merger agreement and the breach by its nature cannot be cured before July 15, 2006 or has not been cured within 30 days after notice from the terminating party;

by a non-breaching party if the other party materially fails to perform or comply with any of the covenants or agreements in the merger agreement and the failure by its nature cannot be cured before July 15, 2006, or has not been cured within 30 days after notice of the breach by the terminating party;

by either Flushing Financial or Atlantic Liberty if the closing of the merger has not occurred by July 15, 2006 or a later date agreed upon by both parties, and the failure to close is not due to the terminating party's material breach of any representation, warranty, covenant or other agreement contained in the merger agreement;

by either Flushing Financial or Atlantic Liberty if the stockholders of Atlantic Liberty do not approve the merger agreement at the special meeting;

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by either party if any required regulatory approvals for consummation of the merger are denied in a nonappealable action or any court or other governmental authority issues a final nonappealable order or other action prohibiting the merger;

by either party, in the event that any of the conditions precedent to the obligations of that party to consummate the merger cannot be satisfied by July 15, 2006;

by Atlantic Liberty, upon the vote of a majority of the board of directors at any time during the five business-day period commencing on the first date on which all regulatory approvals necessary for consummation of the merger have been received, if the average of the daily closing sales prices

Table of Contents

of a share of Flushing Financial common stock as reported on Nasdaq (i) for the 20 consecutive trading days immediately preceding the first date on which all regulatory approvals necessary for consummation of the merger have been received is less than 85% of the average daily closing sales prices of a share of Flushing Financial common stock, as reported on Nasdaq, for the 20 consecutive trading days immediately preceding the public announcement of the merger agreement, and (ii) declines by 15% or more compared to a group of its peers specified in the merger agreement, provided that Atlantic Liberty gives prompt written notice to Flushing Financial, and Flushing Financial will have the option to increase the consideration to be received by the holders of Atlantic Liberty common stock who elect to receive Flushing Financial common stock by adjusting the ratio of Flushing Financial shares to be received for each Atlantic Liberty share pursuant to either of two formulas prescribed in the merger agreement, in which case no termination will be deemed to have occurred;

by Flushing Financial if Atlantic Liberty shall have received a superior proposal, as defined in the merger agreement, and the Atlantic Liberty board of directors shall have entered into an acquisition agreement with respect to the superior proposal and terminates the merger agreement or fails to recommend that the stockholders of Atlantic Liberty approve the Flushing Financial merger agreement or withdraws, modifies or changes such recommendation in a manner which is adverse to Flushing Financial; and

by Atlantic Liberty if Atlantic Liberty has received a superior proposal which it has determined to accept in compliance with the applicable terms of the merger agreement, provided that Atlantic Liberty has notified Flushing Financial at least five business days in advance of any such action and has given Flushing Financial the opportunity during such period, if Flushing Financial elects in its sole discretion, to negotiate amendments to the merger agreement which would permit Atlantic Liberty to proceed with the proposed merger with Flushing Financial.

If the merger agreement is terminated, under either of the latter two scenarios described above, Atlantic Liberty shall pay to Flushing Financial a fee of \$2.5 million. The fee would also be payable to Flushing Financial if Atlantic Liberty enters into a merger agreement with a third party within 12 months of the termination of the merger agreement by Flushing Financial, due to a willful breach of a representation, warranty, covenant or agreement by Atlantic Liberty or the failure of the stockholders of Atlantic Liberty to approve the merger agreement after Atlantic Liberty's receipt of a third party acquisition proposal. See Pending Litigation. On April 6, 2006, Atlantic Liberty and Flushing Financial entered into a Stipulation and Agreement of Compromise, Settlement and Release that would, in part, reduce the termination fee payable to Flushing Financial by Atlantic Liberty from \$2.5 million to \$2.0 million.

Flushing Financial will be required to pay Atlantic Liberty a termination fee in the amount of \$1.0 million if Flushing Financial (i) commits a material breach of any of the representations or warranties contained in the merger agreement and the breach either cannot be cured before July 15, 2006 or Flushing Financial has not cured the breach within 30 days after written notice of the breach by Atlantic Liberty; or (ii) materially fails to perform or comply with any of the covenants or agreements set forth in the merger agreement, and the failure either cannot be cured before July 15, 2006 or Flushing Financial has not cured the failure within 30 days after written notice of the failure by Atlantic Liberty.

The merger agreement may be amended by the parties at any time before or after approval of the merger agreement by the Atlantic Liberty stockholders. However, after such approval, no amendment may be made without the approval of Atlantic Liberty's stockholders if it reduces the amount or value, or changes the form, of the merger consideration to be delivered to Atlantic Liberty stockholders pursuant to the merger agreement.

The parties may waive any of their conditions to closing, unless they may not be waived under law.

Management and Operations After the Merger

Upon closing of the merger between Atlantic Liberty and Flushing Financial, Atlantic Liberty Savings will be merged into Flushing Savings Bank and the separate existence of Atlantic Liberty Savings will cease. The directors and officers of Flushing Financial and Flushing Savings Bank immediately prior to the merger will continue as directors and officers of Flushing Financial and Flushing Savings Bank after the merger. Upon the closing of the merger, Flushing Financial will establish an Advisory Board which will consist of the current Corporate Secretary of Atlantic Liberty as well as each person who serves on the board of directors of Atlantic

Table of Contents

Liberty or Atlantic Liberty Savings, both on December 20, 2005 and immediately prior to the effective time of the merger. The Advisory Board will be continued for a period of three years.

Under the terms of the merger agreement, the certificate of incorporation and bylaws of Flushing Financial will be the certificate of incorporation and bylaws of the combined entity, which will retain the name of Flushing Financial Corporation. Flushing Financial, as the resulting entity, will continue to operate under the policies, practices and procedures currently in place. All assets and property owned by Atlantic Liberty will immediately become the property of Flushing Financial. Flushing Financial does not currently anticipate closing any branches of Flushing Savings Bank or Atlantic Liberty Savings.

Effective Date of Merger

The parties expect that the merger will be effective in the second calendar quarter of 2006 or as soon as possible after the receipt of all regulatory and stockholder approvals and all regulatory waiting periods expire but in no event later than 30 days after the last condition precedent has been fulfilled or waived (including the expiration of any applicable waiting period). The merger will be legally completed by the filing of a certificate of merger with the Secretary of State of the State of Delaware. If the merger is not consummated by July 15, 2006, the merger agreement may be terminated by either Atlantic Liberty or Flushing Financial, unless the failure to consummate the merger by this date is due to the breach by the party seeking to terminate the merger agreement or any of its obligations under the merger agreement. See **Conditions to the Merger** above.

Public Trading Markets

Flushing Financial common stock is currently traded on the Nasdaq National Market under the symbol **FFIC**. Atlantic Liberty common stock is currently traded on the Nasdaq National Market under the symbol **ALFC**. Upon completion of the merger, Atlantic Liberty common stock will be delisted from the Nasdaq National Market and deregistered under the Securities Exchange Act of 1934, as amended. The shares of Flushing Financial common stock issued pursuant to the merger agreement will be traded on the Nasdaq National Market.

The shares of Flushing Financial common stock to be issued in connection with the merger will be freely transferable under the Securities Act of 1933, except for shares issued to any stockholder who may be deemed to be an affiliate of Flushing Financial or Atlantic Liberty, as discussed in **Resale of Flushing Financial Common Stock** below.

Flushing Financial may from time to time repurchase shares of Flushing Financial common stock and purchase shares of Atlantic Liberty common stock, and, if consented to by Flushing Financial, Atlantic Liberty may from time to time repurchase shares of Atlantic Liberty common stock and purchase shares of Flushing Financial common stock. During the course of the solicitation being made by this proxy statement/prospectus, either party may bid for and purchase shares of Atlantic Liberty common stock, but neither party may bid for or purchase shares of Flushing Financial common stock.

Flushing Financial Dividends

In 2005, Flushing Financial paid quarterly cash dividends of \$0.10 per share on its common stock. On February 21, 2006, Flushing Financial announced that it was increasing its quarterly dividend by 10% to \$0.11 per share per quarter. Flushing Financial expects to continue such practice, although the Flushing Financial board of directors may change this dividend practice at any time. Atlantic Liberty currently pays a quarterly cash dividend of \$0.08 per share, which is expected to continue until the merger but may not be increased without Flushing Financial's prior approval.

Flushing Financial stockholders will be entitled to receive dividends when and if declared by the Flushing Financial board of directors out of funds legally available for dividends. The Flushing Financial board of directors will periodically consider the payment of dividends, taking into account Flushing Financial's financial condition and level of net income, changing opportunities to deploy capital effectively, operating trends, future income tax rates and general economic conditions, as well as various legal and regulatory limitations.

Table of Contents

Fees and Expenses

Flushing Financial and Atlantic Liberty will each pay its own costs and expenses in connection with the merger agreement and the transactions contemplated thereby except for the payment by Atlantic Liberty to Flushing Financial or by Flushing Financial to Atlantic Liberty of a termination fee in certain circumstances, as described above.

In addition, if either party willfully breaches the merger agreement, such party will be liable for all damages, costs and expenses sustained by the other party as a result of such breach.

Material United States Federal Income Tax Consequences of the Merger

General. The following discussion sets forth the material United States federal income tax consequences of the merger to U.S. holders (as defined below) of Atlantic Liberty common stock. This discussion does not address any tax consequences arising under the laws of any state, locality or foreign jurisdiction. This discussion is based upon the Internal Revenue Code, the regulations of the U.S. Treasury Department and court and administrative rulings and decisions in effect on the date of this document. These laws may change, possibly retroactively, and any change could affect the continuing validity of this discussion.

For purposes of this discussion, the term "U.S. holder" means:

a citizen or resident of the United States;

a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized under the laws of the United States or any of its political subdivisions;

a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person; or

an estate that is subject to United States federal income tax on its income regardless of its source.

This discussion assumes that you hold your shares of Atlantic Liberty common stock as a capital asset within the meaning of Section 1221 of the Internal Revenue Code. Further, the discussion does not address all aspects of U.S. federal income taxation that may be relevant to you in light of your particular circumstances or that may be applicable to you if you are subject to special treatment under the United States federal income tax laws, including if you are:

a financial institution;

a tax-exempt organization;

an S corporation or other pass-through entity;

an insurance company;

a mutual fund;

a dealer in securities or foreign currencies;

a trader in securities who elects the mark-to-market method of accounting for your securities;

an Atlantic Liberty stockholder subject to the alternative minimum tax provisions of the Internal Revenue Code;

an Atlantic Liberty stockholder who received Atlantic Liberty common stock through the exercise of employee stock options or otherwise as compensation or through a tax-qualified retirement plan;

a person that has a functional currency other than the U.S. dollar;

Table of Contents

a holder of options granted under any Atlantic Liberty benefit plan; or

an Atlantic Liberty stockholder who holds Atlantic Liberty common stock as part of a hedge, straddle or a constructive sale or conversion transaction.

If a partnership (including an entity treated as a partnership for United States federal income tax purposes) holds Atlantic Liberty common stock, the tax treatment of a partner in the partnership will generally depend on the status of such partner and the activities of the partnership.

Flushing Financial and Atlantic Liberty have structured the merger to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. It is a condition to the closing of the merger that Flushing Financial and Atlantic Liberty will receive opinions from Thacher Proffitt & Wood LLP and Luse Gorman Pomeroy & Schick, P.C., respectively, dated as of the closing date of the merger, to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. Although the merger agreement allows us to waive this condition, we currently do not anticipate doing so. If either of us does waive this condition and the tax consequences of the merger are materially different from those described in this document, we will inform you of this decision and ask you to vote on the merger taking this into consideration. In rendering these opinions, counsel may require and rely upon representations contained in representation letters to be received from Flushing Financial and Atlantic Liberty. Neither of these tax opinions will be binding on the Internal Revenue Service. Flushing Financial and Atlantic Liberty have not and do not intend to request any ruling from the Internal Revenue Service as to the U.S. federal income tax consequences of the merger.

Assuming the merger qualifies as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code, the material United States federal income tax consequences of the merger are as follows:

if you exchange Atlantic Liberty common stock solely for Flushing Financial common stock, you will not recognize gain or loss except with respect to any cash received in lieu of a fractional share of Flushing Financial common stock;

if you exchange Atlantic Liberty common stock solely for cash, you generally will recognize gain or loss in an amount equal to the difference between the amount of cash you receive and your tax basis in your shares of Atlantic Liberty common stock surrendered;

if you exchange Atlantic Liberty common stock for a combination of Flushing Financial common stock and cash and your tax basis in the Atlantic Liberty common stock surrendered is less than the sum of the fair market value of the Flushing Financial common stock and the amount of cash received, you generally will recognize gain in an amount equal to the lesser of (1) the sum of the cash (excluding any cash received in lieu of a fractional share of Flushing Financial common stock) and the fair market value of the Flushing Financial common stock you receive (including any fractional share of Flushing Financial common stock you are deemed to receive and exchange for cash), minus your tax basis in the Atlantic Liberty common stock surrendered in the merger; and (2) the amount of cash that you receive in the merger. However, if your tax basis in the Atlantic Liberty common stock surrendered in the merger is greater than the sum of the amount of cash and the fair market value of the Flushing Financial common stock received, your loss will not be recognized for tax purposes until you dispose of the shares you received in the merger.

your tax basis in the Flushing Financial common stock that you receive in the merger (including any fractional shares you are deemed to receive and exchange for cash), will equal your tax basis in the Atlantic Liberty common stock you surrendered, increased by the amount of taxable gain, if any, you recognize on the exchange (excluding any gain recognized with respect to any cash received in lieu of a fractional share of Flushing Financial common stock) and decreased by the amount of any cash received by you in the merger (excluding any cash received in lieu of a fractional share of Flushing Financial common stock); and

your holding period of the Flushing Financial common stock that you receive in the merger (including any fractional shares you are deemed to receive and exchange for cash) will include your holding period for the shares of Atlantic Liberty common stock that you exchange in the merger.

Table of Contents

If you acquired different blocks of Atlantic Liberty common stock at different times or at different prices, any gain or loss you recognize will be determined separately with respect to each block of Atlantic Liberty common stock, and the cash and Flushing Financial common stock you receive will be allocated pro rata to each such block of common stock. In addition, your tax basis and holding period in your Flushing Financial common stock received in the merger may be determined with reference to each block of Atlantic Liberty common stock exchanged.

Cash in Lieu of Fractional Shares. If you receive cash in lieu of a fractional share of Flushing Financial common stock, you will be treated as having first received such fractional Flushing Financial share in the merger and then as having received cash in exchange for the fractional share. Thus, you generally will recognize gain or loss in an amount equal to the difference between the amount of cash received and the basis allocated to such fractional share.

Dissenting Stockholders. Holders of Atlantic Liberty common stock who dissent with respect to the merger as discussed in Dissenters' Rights of Appraisal, below, and who receive cash in respect of their shares of Atlantic Liberty common stock generally will recognize gain or loss in an amount equal to the difference between the amount of cash received and their aggregate tax basis in their shares of Atlantic Liberty common stock.

Taxation of Capital Gain. Any gain or loss that you recognize in connection with the merger will generally constitute capital gain or loss and will constitute long-term capital gain or loss if your holding period in your Atlantic Liberty common stock is greater than one year as of the date of the merger. The deductibility of capital losses is subject to limitations.

Information Reporting and Backup Withholding. Unless an exemption applies, the exchange agent will be required to withhold, and will withhold, 28% of any cash payments to which a holder of Atlantic Liberty common stock or other payee is entitled pursuant to the merger, unless the stockholder or other payee (i) provides his or her taxpayer identification number (social security number or employer identification number) and certifies that such stockholder or other payee is not subject to backup withholding on the substitute Form W-9 that will be included as part of the election form transmittal letter or (ii) otherwise establishes an exemption from backup withholding. Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against your federal income tax liability, provided you furnish the required information to the Internal Revenue Service.

Atlantic Liberty Savings ESOP and 401(k) Plan. Under the Atlantic Liberty Savings ESOP and 401(k) Plan, participant accounts are invested in Atlantic Liberty common stock. The instruction by a participant in the ESOP or 401(k) Plan to convert the common stock into cash, into Flushing Financial common stock, or partly into cash and partly into Flushing Financial common stock pursuant to the merger will not result in a taxable event for the plan participant at the time of the merger. However, the decision may have a long-term tax impact on the plan participant. The ESOP will be terminated upon consummation of the merger. Participants will be able to take a distribution of their ESOP account in cash or shares of Flushing Financial common stock or a combination of cash and Flushing Financial common stock, in accordance with their elections.

Under the terms of the ESOP, the common stock may be distributed in kind at the election of the plan participant. In the event that the common stock is distributed in kind as part of a benefit payment which qualifies as a lump sum distribution to a participant who is over age 59-1/2 or has separated from employment with the employer sponsoring the plan, and the participant so elects, only the ESOP's original cost or basis of the common stock will be taxed at that time to the participant; the net unrealized appreciation will not be taxed until such time as the common stock is disposed of by the participant in a subsequent taxable transaction. To the extent that gain recognized from the disposition does not exceed the net unrealized appreciation at the time of the distribution from the ESOP, the gain recognized will be taxed as long-term capital gain, even if the disposition occurs shortly after the distribution from the ESOP. Any additional unrealized appreciation, such as growth in value subsequent to the distribution, will also be taxed as a long-term capital gain if the stock has been held for more than one year after the distribution date.

The preceding discussion is intended only as a summary of material United States federal income tax consequences of the merger. It is not a complete analysis or discussion of all potential tax consequences that may be important to you. Thus, we urge Atlantic Liberty stockholders to consult their own tax advisors as to

Table of Contents

the specific tax consequences to them resulting from the merger, including tax return reporting requirements, the applicability and effect of federal, state, local and other applicable tax laws and the effect of any proposed changes in the tax laws.

Resale of Flushing Financial Common Stock

All shares of Flushing Financial common stock received by Atlantic Liberty stockholders in the merger will be registered under the Securities Act of 1933 and will be freely transferable, except that shares of Flushing Financial common stock received by persons who are deemed to be affiliates, as the term is defined under the Securities Act of 1933, of Flushing Financial or Atlantic Liberty at the time of the special meeting may be resold by them only in transactions permitted by the resale provisions of Rule 145 under the Securities Act of 1933 or as otherwise permitted under the Securities Act of 1933. Persons who may be deemed to be affiliates of Flushing Financial or Atlantic Liberty generally include individuals or entities that control, are controlled by, or are under common control with, Flushing Financial or Atlantic Liberty and may include certain officers and directors of Flushing Financial or Atlantic Liberty as well as principal stockholders of Flushing Financial or Atlantic Liberty. Affiliates of both parties have previously been notified of their status. The merger agreement requires Atlantic Liberty to use reasonable efforts to receive a letter agreement from each person who is an affiliate of Atlantic Liberty restricting the transferability of any shares of Flushing Financial common stock received in the merger.

This proxy statement/prospectus does not cover resales of Flushing Financial common stock received by any person who may be deemed to be an affiliate of Atlantic Liberty or Flushing Financial.

Accounting Treatment

In accordance with accounting principles generally accepted in the United States of America, the merger will be accounted for using the purchase method. As a result, the recorded assets and liabilities of Flushing Financial will be carried forward at their recorded amounts, the historical operating results will be unchanged for the prior periods being reported on and the assets and liabilities from the acquisition of Atlantic Liberty will be adjusted to fair value at the date of the merger. In addition, all identified intangible assets (such as a core deposit intangible) will be recorded at fair value and included as part of the net assets acquired. To the extent that the purchase price, consisting of cash plus the number of shares of Flushing Financial common stock to be issued to former Atlantic Liberty stockholders at fair value, exceeds the fair value of the net assets, including identifiable intangibles, of Atlantic Liberty at the merger date, that amount will be reported as goodwill. Goodwill will not be amortized but will be evaluated for impairment annually. Identified intangibles will be amortized over their estimated lives.

Pending Litigation

On December 27, 2005, the complaint Lowinger v Atlantic Liberty, et al. was filed in the Court of Chancery of the State of Delaware in and for New Castle County. The complaint named Atlantic Liberty, each of Atlantic Liberty's directors, two of Atlantic Liberty's executive officers (its President and Chief Executive Officer and its Executive Vice President and Chief Financial Officer) and Flushing Financial as defendants in a proposed class action lawsuit in which the plaintiff on behalf of herself, and other similarly situated persons, alleges Atlantic Liberty, its board of directors and two executive officers breached their fiduciary duties to Atlantic Liberty and its shareholders by entering into a merger agreement with Flushing Financial for a price per share which was below the then current trading price and caused Atlantic Liberty's closing price per share to drop from \$28.02 per share to \$22.50 per share, while also agreeing to change of control and other payments to Atlantic Liberty's executive officers and directors, in excess of \$3.0 million. The complaint also alleges that Atlantic Liberty would pay Flushing Financial a termination fee of \$2.5 million in the event that Atlantic Liberty fails to proceed with the acquisition on account of a superior proposal and that Atlantic Liberty has not publicly disclosed any information about any sale process undertaken to ascertain the universe of potential buyers. The complaint also alleges that Flushing Financial rendered knowing assistance to Atlantic Liberty's directors and certain executive officers in their breach of fiduciary duties. The plaintiff is requesting that (i) the court declare the complaint to be a proper class action, (ii) the termination fee entered into as part of the merger agreement be voided, (iii) unspecified compensation or recessionary damages be awarded, (iv) a constructive trust be established for the benefit of the class which will contain all special payments to the individual defendants and (v) plaintiffs receive costs and disbursements.

Table of Contents

On December 28, 2005, the complaint Sontag v Atlantic Liberty, et al. was filed in the Court of Chancery of the State of Delaware in and for New Castle County. The complaint makes similar factual allegations as the Lowinger complaint and also names as defendants Atlantic Liberty, the individual directors of Atlantic Liberty, as well as Atlantic Liberty's President and Chief Executive Officer and its Executive Vice President and Chief Financial Officer as well as Flushing Financial. The complaint requests that the court (i) declare that the defendants breached their fiduciary duties, (ii) preliminarily and permanently enjoin the defendants and their counsel, agents, employees and all persons acting in concert from proceeding with, consummating or closing the merger, (iii) declare the action to be a proper class action and certify the named plaintiff as representative of the class; (iv) award costs and disbursements, counsel and expert fees and prejudgment interest.

Contrary to the allegations, Atlantic Liberty's financial advisors, Sandler O'Neill, solicited indications of interest for Atlantic Liberty and contacted 21 financial institutions, of which 11 signed confidentiality agreements, and seven of which were given personal presentations by Sandler O'Neill. Three of these banks, including Flushing Financial, submitted indications of interest. One bank submitted a written indication of interest of \$20.00 per share in an all cash transaction, another bank submitted an oral indication of interest of between \$20.00 to \$21.00 per share and Flushing Financial submitted a written indication of interest of \$24.00 per share in a stock and cash transaction. Sandler O'Neill evaluated each indication of interest, and advised Atlantic Liberty's board of directors that Flushing Financial's indication of interest, which represented a premium of 20% over the next highest written indication of interest, was the highest value submitted. Sandler O'Neill also advised Atlantic Liberty's board of directors that Flushing Financial's \$24.00 per share value presumed that there would be no excess parachute payments to officers of Atlantic Liberty Savings that would trigger any excise taxes under sections 280G and 4999 of the Internal Revenue Code as a result of the acquisition. See Background of the Merger.

Atlantic Liberty and Flushing Financial reviewed each of these complaints and, in consultation with counsel, concluded that the complaints were without merit and that the allegations were incorrect as to the facts or the law, or both and did not take into account Sandler O'Neill's solicitation of indications of interest to acquire Atlantic Liberty. Atlantic Liberty and Flushing Financial intended to vigorously defend the lawsuits and expected to prevail on the merits. Expedited discovery was agreed to by the parties and ordered by the Delaware Chancery Court. The production of documents was largely completed by Flushing Financial and Atlantic Liberty during February and two depositions were taken during March. During such discovery process it was factually demonstrated, as described above in Background of the Merger, that Atlantic Liberty and Sandler O'Neill had conducted a careful process to determine realistic indications of interest in acquiring Atlantic Liberty, and Flushing Financial's offer was the highest offer by a substantial margin. During the discovery process and prior to trial, the parties achieved a proposed settlement of the litigation in order to reduce the costs and risks of litigation. Atlantic Liberty, Flushing Financial, the Atlantic Liberty director and officer defendants and the plaintiffs agreed to enter into a settlement agreement that would reduce the dollar amount of the termination fee payable to Flushing Financial by Atlantic Liberty pursuant to the merger agreement, as described above in Termination; Amendment; Waiver, from \$2.5 million to \$2.0 million, and would give each of the plaintiffs the opportunity to comment on the disclosures in this proxy statement/prospectus. On April 6, 2006, the parties entered into a Stipulation and Agreement of Compromise, Settlement and Release to that effect, which stipulation is subject to the approval of the Delaware Court of Chancery.

Dissenters' Rights of Appraisal

Under Delaware law, stockholders of Atlantic Liberty, including the ESOP trustee and the 401(k) Plan trustee with respect to the shares allocated to their accounts, have the right to dissent from the merger and to receive payment in cash for the fair value of their shares of Atlantic Liberty common stock instead of the merger consideration. Atlantic Liberty stockholders electing to do so must comply with the provisions of Section 262 of the Delaware General Corporation Law in order to perfect their rights of appraisal. A copy of the applicable Delaware statute is attached as Appendix B of this document.

Ensuring perfection of appraisal rights can be complicated. The procedural rules are specific and must be followed precisely. An Atlantic Liberty stockholder's failure to comply with these procedural rules may result in his or her becoming ineligible to pursue appraisal rights.

The following is intended as a brief summary of the material provisions of the Delaware statutory procedures that an Atlantic Liberty stockholder must follow in order to dissent from the merger and obtain payment of the fair value of his or her shares of Atlantic Liberty common stock instead of the merger consideration. This summary, however, is not a complete statement of all applicable requirements and is qualified in its entirety by reference to Section 262 of the Delaware General Corporation Law, the full text of which appears in Appendix C of this proxy statement/prospectus. Under Section 262 of the Delaware General Corporation Law, not less than 20 days before Atlantic Liberty's special meeting of stockholders, Atlantic Liberty must notify each of the holders of

Table of Contents

record of its capital stock as of _____, 2006 that appraisal rights are available and include in the notice a copy of Section 262 of the Delaware General Corporation Law. Atlantic Liberty intends that this proxy statement/prospectus constitutes this notice.

If you are an Atlantic Liberty stockholder and you wish to exercise your appraisal rights, you must satisfy the provisions of Section 262 of the Delaware General Corporation Law. Section 262 requires the following:

You must make a written demand for appraisal You must deliver a written demand for appraisal to Atlantic Liberty before the vote on the merger agreement is taken at the Atlantic Liberty special meeting of stockholders. This written demand for appraisal must be separate from your proxy card. A vote against the merger agreement alone will not constitute a demand for appraisal.

You must not vote for adoption of the merger agreement You must not vote for adoption of the merger agreement. If you vote, by proxy or in person, in favor of the merger agreement, this will terminate your right to appraisal. You can also terminate your right to appraisal if you return a signed proxy card and:

fail to vote against adoption of the merger agreement; or

fail to note that you are abstaining from voting.

If you do either of these two things, your appraisal rights will terminate even if you previously filed a written demand for appraisal.

You must continuously hold your Atlantic Liberty common stock You must continuously hold your shares of Atlantic Liberty common stock from the date you make the demand for appraisal through the effective date of the merger. If you are the record holder of Atlantic Liberty common stock on the date the written demand for appraisal is made but thereafter transfer the shares prior to the effective date of the merger, you will lose any right to appraisal for those shares.

A written demand for appraisal of Atlantic Liberty common stock is only effective if it is signed by, or for, the stockholder of record who owns such shares at the time the demand is made. The demand must also be signed precisely as the stockholder's name appears on his or her stock certificate. If you are the beneficial owner of Atlantic Liberty common stock, but not the stockholder of record, you must have the stockholder of record sign any demand for appraisal.

If you own Atlantic Liberty common stock in a fiduciary capacity, such as a trustee, guardian or custodian, you must disclose the fact that you are signing the demand for appraisal in that capacity.

If you own Atlantic Liberty common stock with more than one person, such as in a joint tenancy or tenancy in common, all the owners must sign, or have signed for them, the demand for appraisal. An authorized agent, including an agent for one or more of the joint owners, may sign the demand for appraisal for a stockholder of record; however, the agent must expressly disclose who the stockholder of record is and that the agent is signing the demand as that stockholder's agent.

If you are a record owner, such as a bank or broker, who holds Atlantic Liberty common stock as a nominee for others, you may exercise a right of appraisal with respect to the shares of Atlantic Liberty common stock held for one or more beneficial owners, while not exercising such right for other beneficial owners. In such a case, you should specify in the written demand the number of shares of Atlantic Liberty common stock as to which you wish to demand appraisal. If you do not expressly specify the number of shares, the demand will be presumed to cover all the shares of Atlantic Liberty common stock that are in your name.

If you are an Atlantic Liberty stockholder who elects to exercise appraisal rights, you should mail or deliver a written demand to: Atlantic Liberty, 186 Montague Street, Brooklyn, New York 11201, Attention: William M. Gilfillan, Corporate Secretary.

Table of Contents

It is important that Atlantic Liberty receive all written demands before the vote concerning the merger agreement is taken at the Atlantic Liberty special meeting of stockholders. As explained above, this written demand would be signed by, or on behalf of, the stockholder of record. The written demand for appraisal should specify the stockholders name and mailing address, the number of shares of common stock owned, and that the stockholder is demanding appraisal of such stockholder's shares.

If the merger is completed, each holder of Atlantic Liberty common stock who has perfected appraisal rights in accordance with Section 262 of the Delaware General Corporation Law will be entitled to be paid by Flushing Financial for such stockholder's shares of Atlantic Liberty common stock the fair value in cash of those shares. The Delaware Court of Chancery will determine the fair value of the shares, exclusive of any element of value arising from the completion or expectation of the merger, together with a fair rate of interest, if any, to be paid upon the amount determined to be the fair value. In determining such fair value, the court may take into account all relevant factors and upon such determination will then direct the payment of the fair value of the shares, together with any interest, to the holders of Atlantic Liberty common stock who have perfected their appraisal rights. The shares of Atlantic Liberty common stock with respect to which holders have perfected their appraisal rights in accordance with Section 262 and have not effectively withdrawn or lost their appraisal rights are referred to in this document as the dissenting shares.

Stockholders considering seeking appraisal for their shares should note that the fair value of their shares determined under Section 262 of Delaware law could be more, the same or less than the consideration they would receive pursuant to the merger agreement if they did not seek appraisal of their shares. The Delaware Court of Chancery may determine the costs of the appraisal proceeding and allocate them among the parties as the court deems equitable under the circumstances. Upon application of a stockholder, the court may order all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including reasonable attorneys' fees and the fees and expenses of experts, to be charged pro rata against the value of all shares entitled to appraisal. In the absence of such determination or assessment, each stockholder bears its own expenses.

If you fail to comply with any of these conditions and the merger becomes effective, you will only be entitled to receive the consideration provided in the merger agreement for your shares.

Within ten days after the effective date of the merger, Flushing Financial must give written notice that the merger has become effective to each stockholder who has fully complied with the conditions of Section 262 of the Delaware General Corporation Law.

Within 120 days after the effective date of the merger, either the surviving corporation of the merger or any stockholder who has complied with the conditions of Section 262 may file a petition in the Delaware Court of Chancery. This petition should request that the Delaware Court of Chancery determine the value of the shares of Atlantic Liberty common stock held by all the stockholders who are entitled to appraisal rights. If you intend to exercise your appraisal rights, you should file this petition in the Delaware Court of Chancery. Flushing Financial has no obligation to file this petition, and if you do not file this petition within 120 days after the effective date of the merger, you will lose your rights of appraisal. A dissenting stockholder must also serve a copy of the petition on Flushing Financial.

If you change your mind and decide you no longer wish to exercise your appraisal rights, you may withdraw your demand for appraisal rights at any time within 60 days after the effective date of the merger. A withdrawal request received more than 60 days after the effective date of the merger is effective only with the written consent of Flushing Financial. If you effectively withdraw your demand for appraisal rights, you will receive the merger consideration provided in the merger agreement.

If you have complied with the conditions of Section 262, you are entitled to receive a statement from Flushing Financial. This statement will set forth the number of shares not voted in favor of the merger agreement and that have demanded appraisal rights and the number of stockholders who own those shares. In order to receive this statement you must send a written request to Flushing Financial within 120 days after the effective date of the merger. Flushing Financial must mail this statement within ten days after it receives the written request or within ten days after the expiration of the period for the delivery of demands, whichever is later.

Table of Contents

If you properly file a petition for appraisal in the Chancery Court and deliver a copy to Flushing Financial, Flushing Financial will then have 20 days to provide the Chancery Court with a list of the names and addresses of all stockholders who have demanded appraisal rights and have not reached an agreement with Flushing Financial as to the value of their shares. The Registry in the Court of Chancery, if so ordered by the Court of Chancery, will give notice of the time and place fixed for the hearing of such petition to the stockholders on the list. At the hearing, the Chancery Court will determine the stockholders who have complied with Section 262 and are entitled to appraisal rights. The Chancery Court may also require you to submit your stock certificates to the Registry in the Court of Chancery so that it can note on the certificates that an appraisal proceeding is pending. If you do not follow the Chancery Court's directions, you may be dismissed from the proceeding.

After the Chancery Court determines which stockholders are entitled to appraisal rights, the Chancery Court will appraise the shares of stock that are the subject of the demand for appraisal. To determine the fair value of the shares, the Chancery Court will consider all relevant factors except for any appreciation or depreciation due to the anticipation or accomplishment of the merger. After the Chancery Court determines the fair value of the shares, it will direct Flushing Financial to pay that value to the stockholders who have successfully sought appraisal rights. The Chancery Court can also direct Flushing Financial to pay interest, simple or compound, on that value if the Chancery Court determines that interest is appropriate. In order to receive payment for your shares under an appraisal procedure, you must surrender your stock certificates to Flushing Financial.

If you demand appraisal rights, after the effective date of the merger you will not be entitled:

to vote the shares of common stock for which you have demanded appraisal rights for any purpose;

to receive payment of dividends or any other distribution with respect to the shares of common stock for which you have demanded appraisal, except for dividends or distributions, if any, that are payable to holders of record as of a record date prior to the effective date of the merger; or

to receive the payment of the consideration provided for in the merger agreement (unless you properly withdraw your demand for appraisal).

If you do not file a petition for an appraisal within 120 days after the effective date of the merger, your right to an appraisal will terminate. You may withdraw your demand for appraisal and accept the merger consideration by delivering to Flushing Financial a written withdrawal of your demand, except that:

any attempt to withdraw made more than 60 days after the effective date of the merger will require the written approval of Flushing Financial; and

an appraisal proceeding in the Chancery Court cannot be dismissed unless the Chancery Court approves.

If you fail to comply strictly with the procedures described above you will lose your appraisal rights. Consequently, if you wish to exercise your appraisal rights, we strongly urge you to consult a legal advisor before attempting to do so.

Table of Contents**Atlantic Liberty Stock Trading and Dividend Information**

Atlantic Liberty common stock is currently listed on the Nasdaq National Market under the symbol ALFC. The following table sets forth the high and low sales prices for a share of Atlantic Liberty common stock and cash dividends paid per share for the periods indicated. As of _____, 2006, there were _____ shares of Atlantic Liberty common stock issued and outstanding, and approximately _____ stockholders of record.

Fiscal Year Ending March 31, 2007	High	Low	Dividend Paid Per Share
<i>Quarter Ending:</i>			
June 30, 2006 (through _____, 2006)			\$
Fiscal Year Ended March 31, 2006			
<i>Quarter Ended:</i>			
March 31, 2006	\$ 23.87	\$ 20.80	\$ 0.08
December 31, 2005	\$ 29.95	\$ 22.31	\$ 0.08
September 30, 2005	\$ 30.00	\$ 23.80	\$ 0.08
June 30, 2005	\$ 25.50	\$ 21.25	\$ 0.07
Fiscal Year Ended March 31, 2005			
<i>Quarter Ended:</i>			
March 31, 2005	\$ 25.22	\$ 22.20	\$ 0.07
December 31, 2004	\$ 24.25	\$ 17.51	\$ 0.07
September 30, 2004	\$ 20.15	\$ 17.50	\$ 0.07
June 30, 2004	\$ 19.50	\$ 16.48	\$ 0.06

On December 20, 2005, the business day immediately preceding the public announcement of the merger, the closing price of Atlantic Liberty common stock as reported on the Nasdaq National Market was \$28.02 per share. Based on the closing price of \$16.70 per share of Flushing Financial common stock on that date and the exchange ratio of 1.43 shares of Flushing Financial common stock for each share of Atlantic Liberty common stock, the equivalent per share market value of each share of Atlantic Liberty common stock to be exchanged solely for Flushing Financial common stock would be \$23.88 per share ($\16.70×1.43), if you elect and receive all stock consideration. The equivalent per share market value of each share of Atlantic Liberty common stock to be exchanged solely for cash would be \$24.00, if you elect and receive all cash consideration.

On _____, 2006, the latest practicable date before distribution of this proxy statement/prospectus, the closing price of Atlantic Liberty was \$ _____ per share. Based on the closing price of \$ _____ per share of Flushing Financial common stock on that date and the exchange ratio of 1.43 shares of Flushing Financial common stock for each share of Atlantic Liberty common stock, the equivalent per share market value of each share of Atlantic Liberty common stock to be exchanged solely for Flushing Financial common stock would be \$ _____ per share, if you elect and receive all stock consideration. The equivalent per share market value of each share of Atlantic Liberty common stock to be exchanged solely for cash would still be \$24.00, if you elect and receive all cash consideration.

Flushing Financial Stock Trading and Dividend Information

Flushing Financial common stock is currently listed on the Nasdaq National Market under the symbol FFIC. The following table sets forth the high and low trading prices for a share of Flushing Financial common stock and cash dividends paid per share for the periods indicated. As of _____, 2006 there were _____ shares of Flushing Financial common stock issued and outstanding, and approximately _____ stockholders of record.

Table of Contents

Year Ending December 31, 2006	High	Low	Dividend Paid Per Share
<i>Quarter Ended:</i>			
June 30, 2006 (through , 2006)	\$	\$	\$
March 31, 2006	\$ 17.55	\$ 14.87	\$ 0.11
Year Ended December 31, 2005			
<i>Quarter Ended:</i>			
December 31, 2005	\$ 17.52	\$ 13.95	\$ 0.10
September 30, 2005	\$ 19.65	\$ 15.87	\$ 0.10
June 30, 2005	\$ 18.75	\$ 15.55	\$ 0.10
March 31, 2005	\$ 20.23	\$ 17.17	\$ 0.10
Year Ended December 31, 2004			
<i>Quarter Ended:</i>			
December 31, 2004	\$ 21.50	\$ 18.80	\$ 0.09
September 30, 2004	\$ 19.19	\$ 16.48	\$ 0.09
June 30, 2004	\$ 18.93	\$ 16.35	\$ 0.09
March 31, 2004	\$ 19.50	\$ 17.57	\$ 0.08

On December 20, 2005, the business day immediately preceding the public announcement of the merger, the closing price of Flushing Financial common stock as reported on the Nasdaq National Market was \$16.70 per share. On , 2006 the closing price was \$ per share. Based on the closing price of \$ per share of Flushing Financial common stock on that date, the equivalent per share market value of each share of Atlantic Liberty common stock to be exchanged solely for Flushing Financial common stock would be \$, based on the exchange ratio of 1.43 shares of Flushing Financial common stock for each share of Atlantic Liberty common stock, and the equivalent per share market value of each share of Atlantic Liberty common stock to be exchanged solely for cash would be \$24.00.

Comparison of Stockholders Rights for Existing Stockholders of Atlantic Liberty

As a result of the acquisition of Atlantic Liberty, certain stockholders of Atlantic Liberty will receive shares of common stock of Flushing Financial as merger consideration and will, therefore, become stockholders of Flushing Financial. Flushing Financial and Atlantic Liberty are both organized under the laws of Delaware. Any differences, therefore, in the rights of stockholders of Flushing Financial and Atlantic Liberty arise primarily from differences in their respective certificates of incorporation and bylaws.

While the respective certificates of incorporation and bylaws of Flushing Financial and Atlantic Liberty are substantially similar, there are some differences, as discussed below. This discussion is not intended to be a complete statement of the differences affecting the rights of stockholders, but rather summarizes the material differences affecting the rights of stockholders. The identification of specific provisions or differences is not meant to indicate that other equally or more significant differences do not exist. This discussion is qualified in its entirety by reference to the certificate of incorporation and bylaws of both Atlantic Liberty and Flushing Financial. See *Where You Can Find Additional Information* for procedures for obtaining a copy of Atlantic Liberty's or Flushing Financial's certificate of incorporation and bylaws.

Authorized Capital Stock. The authorized capital stock of Atlantic Liberty consists of 6,500,000 shares, of which 500,000 shares are preferred stock, par value \$0.10 per share, and 6,000,000 shares are common stock, par value \$0.10 per share. Atlantic Liberty's certificate of incorporation authorizes the Atlantic Liberty board of directors to issue shares of Atlantic Liberty preferred stock in one or more series and to fix the designation, powers, preferences and rights of the shares of Atlantic Liberty preferred stock in each series. The Atlantic Liberty board of

Table of Contents

directors has not designated any of the shares of Atlantic Liberty preferred stock. The authorized capital stock of Flushing Financial consists of 45,000,000 shares, of which 5,000,000 shares are preferred stock, par value \$0.01 per share, and 40,000,000 shares are common stock, par value \$0.01 per share. Flushing Financial's certificate of incorporation authorizes the Flushing Financial board of directors to issue shares of Flushing Financial preferred stock in one or more series and to fix the designations, powers, preferences and rights of the shares of Flushing Financial preferred stock in each series. The Flushing Financial board of directors has not designated any of the shares of Flushing Financial preferred stock.

Amendments to Certificate of Incorporation. The certificate of incorporation of Atlantic Liberty generally provides that any modification of the certificate of incorporation may be made by Atlantic Liberty. The only exceptions are for amending or repealing provisions relating to the following articles: amendments to the certificate of incorporation, limitation on the voting rights of stockholders, action of stockholders without a meeting, calling of special meetings of stockholders, structure of the board of directors and special meetings, adoption, amendment or repeal of the bylaws and specified business combinations. For these provisions, approval requires the affirmative vote of 80% of the total votes eligible to be cast by the holders of the outstanding shares of capital stock entitled to vote.

The certificate of incorporation of Flushing Financial provides that the affirmative vote of the holders of at least 80% of the outstanding shares of capital stock of Flushing Financial entitled to vote shall be required to modify provisions relating to the following articles: amendments to the certificate of incorporation, limitation on the voting rights of stockholders, adoption, alteration, amendment, or repeal of the bylaws, specified business combinations, calling of special meetings of stockholders, structure of the board of directors and special meetings, bylaws, specified business combinations and indemnification rights.

Amendments to Bylaws. Under Atlantic Liberty's certificate of incorporation, the bylaws may be adopted, amended or repealed by a vote of a majority of the board of directors or by 80% of the outstanding shares of capital stock entitled to vote for directors (in addition to any vote of holders of any class or series of stock required by law or the certificate of incorporation). Flushing Financial's certificate of incorporation provides that the bylaws may be adopted, altered, amended or repealed by a vote of the board of directors or by two-thirds of the outstanding shares of capital stock entitled to vote for directors, other than shares beneficially owned by a person or entity in excess of 10% of the then outstanding shares of common stock of Flushing Financial. A person or entity is deemed to beneficially own shares that are owned by an affiliate as well as an assignee of such person or entity.

Number of Directors. Atlantic Liberty's certificate of incorporation and bylaws permit Atlantic Liberty's board of directors to designate the number of its members, but in the absence of such a designation, there shall be five directors. Flushing Financial's certificate of incorporation and bylaws permit Flushing Financial's board of directors to designate the number of its members.

Limitation On Director Liability. The certificates of incorporation of Atlantic Liberty and Flushing Financial each provide for a limitation on a director's liability for a breach of fiduciary duty except for liability (i) for any breach of the director's duty of loyalty to Atlantic Liberty or Flushing Financial, as the case may be, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit.

Procedures for Nominations of Directors and Presentation of New Business at Meetings of Stockholders. Under Atlantic Liberty's bylaws, stockholder nominations for directors and proposals for new business must be made in writing and delivered to Atlantic Liberty's Secretary at least 90 days before the date of Atlantic Liberty's proxy materials for the preceding year's special meeting or, if less than 100 days' notice of the meeting date is given to stockholders, within 10 days following a public announcement of the date of the meeting. Under Flushing Financial's bylaws, stockholder nominations for the annual meeting must be submitted to Flushing Financial's Secretary not more than 90 days or less than 60 days before the anniversary of the date of the last annual meeting or, if the upcoming annual meeting is more than 30 days after that anniversary date, then the Secretary must receive the stockholder nomination by the earlier of 10 days before the upcoming meeting date and the close of business 10 days following a public announcement of the date of the meeting. Flushing Financial's bylaws provide

Table of Contents

that stockholder nominations for a special meeting must be submitted to Flushing Financial's Secretary by the close of business 10 days following a public announcement of the date of the meeting.

Description of Capital Stock of Flushing Financial

Flushing Financial is authorized to issue 40,000,000 shares of common stock, par value \$0.01 per share, and 5,000,000 shares of preferred stock, par value \$0.01 per share. At _____, 2006 there were _____ shares of Flushing Financial common stock issued and outstanding. Flushing Financial has no outstanding shares of preferred stock. Each share of Flushing Financial common stock has the same relative rights as, and is identical in all respects with, each other share of common stock.

Dividends. Flushing Financial may pay dividends out of statutory surplus or from net earnings if, as and when declared by its board of directors. The payment of dividends by Flushing Financial is subject to limitations that are imposed by law and applicable regulations. The holders of common stock of Flushing Financial will be entitled to receive and share equally in dividends as may be declared by the board of directors of Flushing Financial out of funds legally available for the payment of dividends. If Flushing Financial issues shares of preferred stock, the holders thereof may have a priority over the holders of the common stock with respect to dividends.

Voting Rights. The holders of common stock of Flushing Financial have exclusive voting rights in Flushing Financial. They elect Flushing Financial's board of directors and act on other matters as are required to be presented to them under Delaware law or as are otherwise presented to them by the board of directors. Generally, each holder of common stock is entitled to one vote per share and will not have any right to cumulate votes in the election of directors. If Flushing Financial issues shares of preferred stock, holders of the preferred stock may also possess voting rights. Certain matters require an affirmative vote of 80% of the then outstanding shares of voting stock, and at least two-thirds of the combined voting power of the voting stock which includes all voting power except those stockholders who beneficially own in excess of 10% of the then outstanding shares of common stock of Flushing Financial. A person or entity is deemed to beneficially own shares that are owned by an affiliate as well as persons acting in concert with such person or entity.

Liquidation. In the event of any liquidation, dissolution or winding up of Flushing Savings Bank, Flushing Financial, as the holder of 100% of Flushing Savings Bank's capital stock, would be entitled to receive, in cash or in kind, the assets of Flushing Savings Bank available for distribution after payment or provision for payment of Flushing Savings Bank's debts and liabilities and after distributions or provision for distributions in settlement of Flushing Savings Bank's liquidation account.

Preemptive Rights. Holders of the common stock of Flushing Financial are not entitled to preemptive rights with respect to any additional shares that may be issued. The common stock is not subject to redemption.

Preferred Stock. None of the shares of Flushing Financial's authorized preferred stock are outstanding. Preferred stock may be issued with preferences and designations as the board of directors may from time to time determine. Flushing Financial's board of directors may, without stockholder approval, authorize the issuance of shares of preferred stock with voting, dividend, liquidation and conversion rights that could dilute the voting strength of the holders of the common stock and may assist management in impeding an unfriendly takeover or attempted change in control.

Provisions of the Flushing Financial Certificate of Incorporation and Bylaws

The following discussion is a general summary of the material provisions of Flushing Financial's certificate of incorporation and bylaws and certain other regulatory provisions that may be deemed to have an anti-takeover effect, thereby possibly discouraging a third party from seeking control of Flushing Financial. The following description of certain of these provisions is necessarily general and, with respect to provisions contained in Flushing Financial's certificate of incorporation and bylaws, reference should be made in each case to the document in question.

Table of Contents

Flushing Financial's certificate of incorporation and bylaws contain a number of provisions relating to corporate governance and rights of stockholders, which might discourage future takeover attempts. As a result, stockholders who might desire to participate in such transactions may not have an opportunity to do so. In addition, these provisions will also render the removal of the board of directors or management of Flushing Financial more difficult.

The following description is a summary of the provisions of the certificate of incorporation and bylaws. See [Where You Can Find More Information](#) as to how to review a copy of these documents.

Directors. The board of directors is divided into three classes. The members of each class will be elected for a term of three years and only one class of directors will be elected annually. Thus, it would take at least two annual elections to replace a majority of Flushing Financial's board of directors. Further, the bylaws impose notice and information requirements in connection with the nomination by stockholders of candidates for election to the board of directors or the proposal by stockholders of business to be acted upon at an annual or special meeting of stockholders.

Restrictions on Call of Special Meetings. The certificate of incorporation and bylaws provide that special meetings of stockholders can be called only by the board of directors pursuant to a resolution adopted by a majority of the total number of authorized directorships. Stockholders are not authorized to call a special meeting of stockholders.

Restrictions on Removing Directors from Office. The certificate of incorporation provides that directors may be removed only for cause, and only by the affirmative vote of the holders of at least 80% of the voting power of all of Flushing Financial's then outstanding common stock entitled to vote.

Authorized but Unissued Shares. Flushing Financial has authorized but unissued shares of common and preferred stock. See [Description of Capital Stock of Flushing Financial](#) above. The certificate of incorporation authorizes 5,000,000 shares of serial preferred stock. Flushing Financial is authorized to issue preferred stock from time to time in one or more series subject to applicable provisions of law, and the board of directors is authorized to fix the designation, powers, preferences, and rights of the shares of each series, and any qualifications, limitations or restrictions on such shares. In the event of a proposed merger, tender offer or other attempt to gain control of Flushing Financial that the board of directors does not approve, it might be possible for the board of directors to authorize the issuance of a series of preferred stock with rights and preferences that would impede the completion of the transaction. An effect of the possible issuance of preferred stock, therefore, may be to deter a future attempt to gain control of Flushing Financial. The board of directors has no present plan to issue any preferred stock.

Amendments to Certificate of Incorporation. Approval by (i) at least 80% of the outstanding voting stock and (ii) at least two-thirds of the outstanding voting stock not beneficially owned by an interested stockholder is required to amend the following provisions:

The ability of the stockholders to adopt, alter, amend or repeal the bylaws;

The inability of the stockholders to take any action by consent in writing;

The requirement that the affirmative vote of least 80% of the outstanding shares of voting stock and two-thirds of the outstanding shares of voting stock not beneficially owned by an interested stockholder is required to consummate certain transactions with an interested stockholder or any affiliate or associate of an interested stockholder;

The ability of the board of directors to evaluate a variety of factors in evaluating offers to purchase or otherwise acquire Flushing Financial;

The division of the board of directors into three staggered classes;

The ability of the board of directors to fill vacancies on the board;

The inability to deviate from the manner prescribed in the bylaws by which stockholders nominate directors and bring other business before meetings of stockholders;

Table of Contents

The requirement that at least 80% of stockholders must vote to remove directors, and can only remove directors for cause; and

The ability of the stockholders to alter, amend or adopt certain provisions of the certificate of incorporation.

Business Combinations with Interested Stockholders

Flushing Financial's certificate of incorporation provides that any business combination (as defined below) involving Flushing Financial and an interested stockholder must be approved by the holders of at least 80% of the voting power of the outstanding shares of stock entitled to vote and by an affirmative vote of the holders of two-thirds of the combined voting power of the voting stock not beneficially owned by an interested stockholder, defined below. However, a business combination involving Flushing Financial and an interested stockholder may be approved by a majority of board members who were members of the board at the time such interested stockholder qualified as an interested stockholder. For purposes of these provisions, an interested stockholder includes:

any person (with certain exceptions) who is the beneficial owner (as defined in the certificate of incorporation) of more than 10% of Flushing Financial outstanding common stock;

any affiliate of Flushing Financial which is the beneficial owner of more than 10% of Flushing Financial outstanding common stock at anytime during the prior two years; or

any transferee of any shares of Flushing Financial common stock that were beneficially owned by an interested stockholder during the prior two years.

For purposes of these provisions, a business combination is defined to include:

any merger or consolidation of Flushing Financial or any subsidiary with or into an interested stockholder or affiliate of an interested stockholder;

the disposition of the assets of Flushing Financial or any subsidiary having an aggregate value of 25% or more of the total consolidated assets of Flushing Financial and its subsidiaries to or with any interested stockholder or affiliate of an interested stockholder;

the issuance or transfer by Flushing Financial or any subsidiary of any of its securities to any interested stockholder or affiliate of an interested stockholder in exchange for cash, securities or other property having an aggregate fair market value of \$2,000,000 or more, other than (i) the issuance of securities upon the conversion of convertible securities of Flushing Financial or any subsidiary of Flushing Financial which were not acquired by any interested stockholder (or affiliate of an interested stockholder) from Flushing Financial or a subsidiary of Flushing Financial, or (ii) the issuance or transfer to an employee benefit plan of Flushing Financial or a subsidiary of Flushing Financial;

any reclassification of securities or recapitalization that would increase the proportionate share of any class of equity or convertible securities owned by an interested stockholder or affiliate of an interested stockholder; and

the adoption of any plan for the liquidation or dissolution of Flushing Financial proposed by, or on behalf of, an interested stockholder or an affiliate of an interested stockholder.

This provision is intended to deter an acquiring party from utilizing two-tier pricing and similar coercive tactics in an attempt to acquire control of Flushing Financial. However, it is not intended to, and will not, prevent or deter all tender offers for shares of Flushing Financial.

Table of Contents

Business Combination Statutes and Provisions

Section 203 of the Delaware General Corporation Law prohibits business combinations, including mergers, sales and leases of assets, issuances of securities and similar transactions by a corporation or a subsidiary, with an interested stockholder, which is someone who beneficially owns 15% or more of a corporation's voting stock, within three years after the person or entity becomes an interested stockholder, unless:

the transaction that caused the person to become an interested stockholder was approved by the board of directors of the target prior to the transaction;

after the completion of the transaction in which the person becomes an interested stockholder, the interested stockholder holds at least 85% of the voting stock of the corporation not including (a) shares held by persons who are both officers and directors of the issuing corporation and (b) shares held by specified employee benefit plans;

the business combination is approved by the board of directors and holders of at least two-thirds of the outstanding voting stock, excluding shares held by the interested stockholder; or

the transaction is one of certain business combinations that are proposed after the corporation had received other acquisition proposals and that are approved or not opposed by a majority of certain continuing members of the board of directors, as specified in the Delaware General Corporation Law.

Neither of Flushing Financial's certificate of incorporation or bylaws contains an election, as permitted by Delaware law, to exempt Flushing Financial from the requirements of Section 203.

INFORMATION ABOUT FLUSHING FINANCIAL

Flushing Financial Corporation is a Delaware corporation and federal savings and loan holding company. The primary business of Flushing Financial is the operation of Flushing Savings Bank, a federally chartered stock savings bank that is its wholly-owned subsidiary. Flushing Savings Bank is a consumer-oriented savings institution whose primary business is attracting retail deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, primarily in (1) originations and purchases of one- to four- family (focusing on mixed-use properties that contain both residential dwelling units and commercial units), multi-family residential and commercial real estate mortgage loans; (2) mortgage loan surrogates such as mortgage-backed securities; and (3) U.S. government and federal agency securities, corporate fixed-income securities and other marketable securities. Flushing Savings Bank also originates certain other loans, including construction loans, Small Business Administration loans and other small business and consumer loans. Flushing Savings Bank currently operates out of nine offices, located in the New York City Boroughs of Queens, Brooklyn and Manhattan, and in Nassau County, New York. At December 31, 2005, Flushing Financial had total consolidated assets of \$2.35 billion, net loans of \$1.88 billion, total deposits of \$1.47 billion and total stockholders' equity of \$176.5 million. The principal executive offices of Flushing Financial are located at 1979 Marcus Avenue, Suite E140, Lake Success, New York 11042.

Additional information about Flushing Financial and its subsidiaries is included in documents incorporated by reference in this proxy statement/prospectus. See [Where You Can Find More Information](#).

INFORMATION ABOUT ATLANTIC LIBERTY

As a small business issuer, Atlantic Liberty files its annual reports on Form 10-KSB and its quarterly reports on Form 10-QSB. Under the governing Securities Act of 1933 and Securities and Exchange Act of 1934 rules and regulations, Atlantic Liberty cannot incorporate those filings by reference in this proxy statement/prospectus. Therefore, information included in Atlantic Liberty's recent Form 10-KSB and Form 10-QSB filings is provided below. In addition, for your ease of reference, Atlantic Liberty's audited consolidated financial statements as of March 31, 2005 and unaudited consolidated financial statements as of December 31, 2005 are attached to this proxy statement/prospectus as Appendix D and Appendix E, respectively. In addition, you may view Atlantic Liberty's recent Form 10-KSB and Form 10-QSB filings at the website maintained by Atlantic Liberty or at the website maintained by the Securities and Exchange Commission. See [Where You Can Find More Information](#).

Table of Contents

General

Atlantic Liberty was incorporated in 2002 for the purpose of acting as the holding company parent of Atlantic Liberty Savings following the completion of its mutual-to-stock conversion. At December 31, 2005, Atlantic Liberty had consolidated assets of \$177.0 million, deposits of \$103.9 million and shareholders' equity of \$28.4 million. Atlantic Liberty's executive office is located at 186 Montague Street, Brooklyn, New York 11201 and its telephone number is (718) 855-3555.

Atlantic Liberty Savings

Atlantic Liberty's principal business consists of attracting retail deposits from the general public in the areas surrounding its two locations in Brooklyn, New York and investing those deposits, together with funds generated from operations and borrowings, primarily in one- to four-family residential mortgage loans, multi-family and commercial real estate loans, mortgage related securities and various other securities. Atlantic Liberty's revenues are derived principally from the interest on loans, securities, loan origination and servicing fees, and service charges and fees collected on deposit accounts. Atlantic Liberty's primary sources of funds are deposits, principal and interest payments on loans and securities and advances from the Federal Home Loan Bank of New York.

Competition

Atlantic Liberty faces intense competition within its market area both in making loans and attracting deposits. The New York City area has a high concentration of financial institutions including large money center and regional banks, community banks and credit unions. Some of Atlantic Liberty's competitors offer products and services that Atlantic Liberty currently does not offer, such as trust services and private banking. Its competition for loans and deposits comes principally from commercial banks, savings institutions, mortgage banking firms and credit unions. Atlantic Liberty faces additional competition for deposits from short-term money market funds, brokerage firms, mutual funds and insurance companies. Atlantic Liberty's primary focus is to build and develop profitable customer relationships across all lines of business while maintaining its role as a community bank.

Market Area

Atlantic Liberty operates in an urban market area that has a stable population and household base. During the past 5 years, the population and number of households in Kings County increased by approximately 2%. In 2004 per capita income for Kings County was \$24,772 and the median household income was \$34,330. Atlantic Liberty's primary lending area is concentrated in the neighborhoods surrounding both of Atlantic Liberty's office locations in Brooklyn, New York. One- to four-family residential real estate in Atlantic Liberty's market area is characterized by a large number of attached and semi-detached houses, including a number of two- and three-family homes and cooperative apartments. Most of Atlantic Liberty's deposit customers are residents of the greater New York metropolitan area. The economy of Atlantic Liberty's market area is characterized by a large number of small retail establishments. Atlantic Liberty's customer base is comprised of middle-income households, and to a lesser extent low-to-moderate-income households. The median household income for Brooklyn is below the national median household income, and the median household income for the State of New York. In addition, the unemployment rate in the market area served by Atlantic Liberty is higher than in the surrounding suburbs.

Lending Activities

Historically, Atlantic Liberty's principal lending activity has been the origination of first mortgage loans for the purchase or refinancing of one- to four-family residential real property, and cooperative apartments. In recent years, Atlantic Liberty has retained all loans that it originated. One- to four-family residential real estate mortgage loans represented \$61.7 million, or 50.5% of Atlantic Liberty's loan portfolio at December 31, 2005. Atlantic Liberty also offers multi-family and commercial real estate loans. Multi-family real estate loans totaled \$27.8 million, or 22.7%, of the loan portfolio at December 31, 2005. Commercial real estate loans totaled approximately \$31.1 million, or 25.4% of the loan portfolio at December 31, 2005. Atlantic Liberty also offers home equity loans to existing customers.

Table of Contents

Loan Portfolio Composition. The following table sets forth the composition of Atlantic Liberty's loan portfolio by type of loan as of the dates indicated, including a reconciliation of gross loans receivable after consideration of the allowance for loan losses and net deferred fees.

	At December 31, 2005		2005		At March 31, 2004		2003	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in thousands)								
Real Estate Loans:								
One- to four-family	\$ 61,666	50.5%	\$ 59,718	49.3%	\$ 62,500	54.9%	\$ 62,500	67.2%
Multi-family	27,799	22.7	27,668	22.9	21,831	19.2	14,860	14.7
Commercial	31,050	25.4	32,667	27.0	28,791	25.3	17,818	17.6
Total real estate loans	120,515	98.6%	120,053	99.2%	113,122	99.4%	100,735	99.5%
Other Loans:								
Home equity	1,663	1.4	1,012	0.8	722	0.6	533	0.5
Unsecured	1		34		6		22	
Total other loans	1,664		1,046		728	0.6	555	0.5
Total loans	\$ 122,179	100.0%	\$ 121,099	100.0%	\$ 113,850	100.0%	\$ 101,290	100.0%
Less:								
Net deferred fees	133		214		210		151	
Allowance for loan losses	753		737		582		484	
Total loans receivable, net	\$ 121,293		\$ 120,148		\$ 113,058		\$ 100,655	

Loan Maturity Schedule. The following table shows the remaining contractual maturity of Atlantic Liberty's loans at March 31, 2005. The table does not include the effect of possible prepayments or due on sale clause payments.

	At March 31, 2005				
	One- to four-family Amount	Multi- Family	Commercial Real Estate (In thousands)	Home Equity and Unsecured	Total
Amounts Due:					
One year or less	\$ 1,132	\$ 6,344	\$ 2,323	\$ 34	\$ 9,833
After one year:					
More than one year to three years	1,133	1,061	2,872	9	5,075
More than three years to five years	2,074	1,742	225	106	4,147
More than five years to 10 years	13,072	11,824	26,748	799	52,443
More than 10 years to 20 years	12,915	6,697	499	98	20,209
More than 20 years	29,392				29,392
Total due after one year	\$ 58,586	\$ 21,324	\$ 30,344	\$ 1,012	111,266
Total due	\$ 59,718	\$ 27,668	\$ 32,667	\$ 1,046	\$ 121,099

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Less:	
Deferred loan fees	214
Allowance for loan losses	737
Loans receivable, net	\$ 120,148

Table of Contents

The total amount of loans due one year after March 31, 2005 which have fixed interest rates is \$27.4 million, and the total amount of loans due after such dates which have floating or adjustable interest rates is \$83.9 million.

One- to Four-family Residential Loans. Atlantic Liberty's primary lending activity consists of the origination of one- to four-family residential mortgage loans secured by property located in its lending area. At December 31, 2005, approximately \$61.7 million, or 50.5% of Atlantic Liberty's loan portfolio, consisted of one- to four-family residential loans. Generally, one- to four-family residential mortgage loans are originated in amounts up to 80% of the lesser of the appraised value or purchase price of the property, with private mortgage insurance required on loans with a loan-to-value ratio in excess of 80%. Atlantic Liberty generally will not make loans with a loan to value ratio in excess of 90%. Generally, fixed-rate loans are originated for terms of up to 15 years. Atlantic Liberty does not sell the loans that it originates.

Atlantic Liberty also offers adjustable-rate mortgage loans with one, three, and five year adjustment periods based on changes in a designated treasury index. Atlantic Liberty also offers a loan product with a fixed rate of interest for seven years, which adjusts annually thereafter. During the nine months ended December 31, 2005, Atlantic Liberty originated \$8.1 million in adjustable rate one- to four-family residential loans and \$2.2 million in fixed rate one- to four-family residential loans. During fiscal 2005, Atlantic Liberty originated \$9.6 million in adjustable rate one- to four-family residential loans and \$2.9 million in fixed rate one- to four-family residential loans. In an effort to increase its origination of adjustable rate loans, Atlantic Liberty priced its adjustable rate mortgages more aggressively as compared to its fixed rate loans. A substantial portion of Atlantic Liberty's adjustable rate mortgage loans provide for maximum rate adjustments of 200 basis points per adjustment, with a lifetime maximum adjustment of 500 basis points. Atlantic Liberty's adjustable rate mortgage loans amortize over terms of up to 30 years.

Adjustable rate mortgage loans decrease the risk associated with changes in market interest rates by periodically repricing, but involve other risks because, as interest rates increase, the underlying payments by the borrower increase, thus increasing the potential for default by the borrower. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates. Upward adjustment of the contractual interest rate is also limited by the maximum periodic and lifetime interest rate adjustments permitted by Atlantic Liberty's loan documents and, therefore, is potentially limited in effectiveness during periods of rapidly rising interest rates. At December 31, 2005, 68% of Atlantic Liberty's one- to four-family residential loans had adjustable rates of interest.

All one- to four-family residential mortgage loans that we originate include due-on-sale clauses, which give Atlantic Liberty the right to declare a loan immediately due and payable in the event that, among other things, the borrower sells or otherwise disposes of the real property subject to the mortgage and the loan is not repaid.

Regulations limit the amount that a savings association may lend relative to the appraised value of the real estate securing the loan, as determined by an appraisal of the property at the time the loan is originated. For all loans, Atlantic Liberty utilizes outside independent appraisers approved by the board of directors. All borrowers are required to obtain title insurance. Atlantic Liberty also requires homeowner's insurance and fire and casualty insurance on properties securing real estate loans.

Multi-Family Real Estate Loans. Loans secured by multi-family real estate totaled approximately \$27.8 million, or 22.7% of the total loan portfolio at December 31, 2005. Multi-family real estate loans generally are secured by rental properties (including walk-up apartments). Substantially all multi-family real estate loans are secured by properties located within Atlantic Liberty's lending area. Multi-family real estate loans generally are offered with adjustable interest rates. Multi-family loans are originated for terms of up to 10 years with a fixed rate of interest for the initial five year period and with a five year renewal option. At the time of renewal, the loan's interest rate will adjust to the five year Treasury Note rate plus a minimum of 250 basis points. Multi-family real estate loans have terms ranging from 5 to 20 years, and may amortize over a period of up to 25 years.

Atlantic Liberty considers a number of factors in originating multi-family real estate loans. It evaluates the qualifications and financial condition of the borrower (including credit history), profitability and expertise, as well as the value and condition of the mortgaged property securing the loan. When evaluating the qualifications of the

Table of Contents

borrower, Atlantic Liberty considers the financial resources of the borrower, the borrower's experience in owning or managing similar property and the borrower's payment history with Atlantic Liberty and other financial institutions. In evaluating the property securing the loan, the factors we consider include the net operating income of the mortgaged property before debt service and depreciation, the debt service coverage ratio (the ratio of net operating income to debt service) to ensure that it is at least 125% of the monthly debt service and the ratio of the loan amount to the appraised value of the mortgaged property. Multi-family real estate loans are originated in amounts up to 70% of the appraised value of the mortgaged property securing the loan. All multi-family loans are appraised by outside independent appraisers approved by the board of directors. Personal guarantees are generally obtained from multi-family real estate borrowers. During the nine months ended December 31, 2005 and fiscal 2005 Atlantic Liberty purchased participation interests totaling \$2.3 million and \$6.0 million, respectively, which were secured by multi-family properties. Such participation interests are purchased once management has concluded that the underlying loan satisfies Atlantic Liberty's underwriting criteria.

Loans secured by multi-family real estate generally involve a greater degree of credit risk than one- to four-family residential mortgage loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income producing properties, and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family real estate typically depends upon the successful operation of the real estate property securing the loan. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired.

Commercial Real Estate Loans. At December 31, 2005, \$31.1 million, or 25.4%, of the total loan portfolio consisted of commercial real estate loans. Commercial real estate loans are secured by office buildings, private schools, religious facilities, restaurants, mixed-use properties and other commercial properties. Atlantic Liberty generally originates adjustable rate commercial real estate loans with maximum terms of up to 10 years. The maximum loan-to-value ratio of commercial real estate loans is 70%. At December 31, 2005, Atlantic Liberty's largest commercial real estate loan had a principal balance of \$3.2 million and was secured by a restaurant.

In underwriting commercial real estate loans, Atlantic Liberty considers and evaluates the same criteria as in underwriting multi-family real estate loans. There were no purchases of commercial real estate loans during the nine months ended December 31, 2005. During fiscal 2005 Atlantic Liberty purchased participation interests totaling \$4.4 million which were secured by commercial real estate properties. Personal guarantees are generally obtained from commercial real estate borrowers.

Loans secured by commercial real estate generally are larger than one- to four-family residential loans and involve greater credit risk. Commercial real estate loans often involve large loan balances to single borrowers or groups of related borrowers. Repayment of these loans depends to a large degree on the results of operations and management of the properties securing the loans or the businesses conducted on such property, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general. Accordingly, the nature of these loans makes them more difficult for management to monitor and evaluate.

Origination and Servicing of Loans. Historically, Atlantic Liberty has originated mortgage loans pursuant to underwriting standards that generally conform with the Fannie Mae and Freddie Mac guidelines. Loan origination activities are primarily concentrated in Brooklyn, New York. New loans are generated primarily from walk-in customers, customer referrals, brokers and other parties with whom Atlantic Liberty does business, and from the efforts of employees and advertising. Loan applications are underwritten and processed at Atlantic Liberty's main office. Atlantic Liberty services all loans that it originates.

Table of Contents

The following table shows Atlantic Liberty's loan origination and repayment activities for the periods indicated. During the nine months ended December 31, 2005, Atlantic Liberty purchased \$2.3 million in loans. During fiscal 2005, Atlantic Liberty purchased \$11.5 million of mortgages from other financial institutions, \$4.4 million of which were commercial loans, \$6.0 million were multi-family loans and \$1.1 million were one-to-four-family loans. Atlantic Liberty sold \$200,000 in loans during the nine months ended December 31, 2005 and did not sell any loans during any of the other periods indicated.

	Nine Months Ended December 31,		Years Ended March 31,		
	2005	2004	2005	2004	2003
	(In thousands)				
Loans receivable, net, at beginning of period	\$ 120,148	\$ 113,058	\$ 113,058	\$ 100,655	\$ 92,856
Originations by type:					
Real estate one- to four-family	10,301	8,255	10,099	15,896	14,525
multi-family	5,586	2,562	4,075	6,090	4,696
commercial	7,108	5,034	6,479	10,672	6,722
Other home equity and unsecured	881	650	674	452	437
Total loans originated	23,876	16,501	21,327	33,110	26,380
Loan purchases	2,274	8,845	11,545	8,358	2,825
Loan sales	(200)				
Principal repayments	(24,871)	(18,891)	(25,625)	(28,905)	(21,309)
Provision and recovery for loan losses	(16)	(155)	(155)	(98)	(49)
Amortization	82	1	(2)	(62)	(48)
Net increase	1,145	6,301	7,090	12,403	7,799
Loans receivable, net, at end of period	\$ 121,293	\$ 119,359	\$ 120,148	\$ 113,058	\$ 100,655

Loan Approval Procedures and Authority. The loan approval process is intended to assess the borrower's ability to repay the loan, the viability of the loan, and the adequacy of the value of the property that will secure the loan. To assess the borrower's ability to repay, Atlantic Liberty reviews the employment and credit history and information on the historical and projected income and expenses of mortgagors. One- to four-family residential mortgage loans of up to \$350,000 may be approved by senior management and all other one- to four-family residential mortgage loans in excess of \$350,000 must be approved by the board of directors. All multi-family and commercial real estate loans must be approved by the board of directors. In addition, the board of directors ratifies all loans approved by management.

Atlantic Liberty requires appraisals of all real property securing loans. Appraisals are performed by independent appraisers who are licensed by the State of New York, and who are approved by the board of directors annually. Atlantic Liberty requires fire and extended coverage insurance in amounts at least equal to the principal amount of the loan. Where appropriate, flood insurance is also required.

Non-performing and Problem Assets

After a mortgage loan becomes eight days past due, we deliver a computer generated delinquency notice to the borrower. A second delinquency notice is sent once the loan becomes 16 days past due. When a loan becomes 30 days past due, Atlantic Liberty sends an additional delinquency notice to the borrower and attempts to make personal contact with the borrower by letter or telephone to establish an acceptable repayment schedule. In addition, with respect to loans secured by a one- to four-family residence, after 45 days Atlantic Liberty will attempt to assist the borrower in obtaining credit counseling. When a mortgage loan is 90 days delinquent and no acceptable resolution has been reached, Atlantic Liberty sends the borrower a five-day demand letter. If the loan is not brought current within 120 days, Atlantic Liberty will generally refer the matter to its attorney. Management is authorized to begin foreclosure proceedings on any loan after determining that it is prudent to do so.

Table of Contents

Mortgage loans are reviewed on a regular basis, and such loans are placed on non-accrual status when they are specifically determined to be impaired or when they become 90 days delinquent. When loans are placed on a non-accrual status, unpaid accrued interest is fully reserved, and further income is recognized only to the extent received. At December 31, 2005, Atlantic Liberty had no non-performing loans. Atlantic Liberty had no accruing loans delinquent more than 90 days as of December 31, 2005 or as of March 31, 2005, 2004 or 2003.

Non-performing Assets. The table below sets forth the amounts and categories of Atlantic Liberty's non-performing assets as of December 31, 2005 and as of March 31, 2005, 2004 and 2003. Delinquent loans that are 90 days or more past due are considered non-performing assets. During the periods presented, Atlantic Liberty did not have any troubled debt restructurings.

	At		At March 31,	
	December 31,			
	2005	2005	2004	2003
		(Dollars in thousands)		
Non-performing loans:				
One- to four-family	\$	\$ 79	\$ 79	\$ 127
Multi-family				
Commercial real estate		9	17	
Unsecured				
Total non-performing loans		88	96	127
Other real estate ⁽¹⁾	78	78	78	78
Total non-performing assets	\$ 78	\$ 166	\$ 174	\$ 205
Total non-performing assets as a percentage of total assets	0.04%	0.09%	0.11%	0.15%
Allowance for loan losses as a percentage of non-performing loans	NM ⁽²⁾	837.50%	606.25%	381.10%
Allowance for loan losses as a percentage of gross loans receivable	0.62%	0.61%	0.51%	0.48%

⁽¹⁾ Represents a \$78,000 investment in real estate.

⁽²⁾ Not meaningful.

Atlantic Liberty had no non-accruing loans during the nine months ended December 31, 2005. For the year ended March 31, 2005, gross interest income which would have been recorded had Atlantic Liberty's non-accruing loans been current in accordance with their original terms amounted to \$3,000. Interest income recognized on such loans for the year ended March 31, 2005 was \$900.

Table of Contents

Delinquent Loans. The following table sets forth Atlantic Liberty's loan delinquencies by type of loan, by amount and by percentage of type at December 31, 2005.

	60-89 Days			Loans Delinquent For: 90 Days and Over			Total Delinquent Loans		
	Number	Amount	Percent of Loan Category	Number	Amount	Percent of Loan Category	Number	Amount	Percent of Loan Category
One- to four-family		\$	%		\$	%		\$	%
Multi-family									
Commercial real Estate									
Home equity and unsecured	1	100	0.16				1	100	0.16
Total	1	\$ 100	0.16%		\$		1	\$ 100	

Delinquent loans to total loans 0.08%

Classified Assets. Office of Thrift Supervision regulations and Atlantic Liberty's Asset Classification Policy provide that loans and other assets considered to be of lesser quality be classified as substandard, doubtful or loss assets. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard, with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Atlantic Liberty classifies an asset as special mention if the asset has a potential weakness that warrants management's close attention. While such assets are not impaired, management has concluded that if the potential weakness in the asset is not addressed, the value of the asset may deteriorate, adversely affecting the repayment of the asset.

An insured institution is required to establish general allowances for loan losses in an amount deemed prudent by management for loans classified substandard or doubtful, as well as for other problem loans. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets as loss, it is required either to establish a specific allowance for losses equal to 100% of the amount of the asset so classified or to charge off such amount. An institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the Office of Thrift Supervision which can order the establishment of additional general or specific loss allowances.

On the basis of management's review of its assets, at December 31, 2005 Atlantic Liberty had no classified assets.

The loan portfolio is reviewed on a regular basis to determine whether any loans require classification in accordance with applicable regulations. Not all classified assets constitute non-performing assets.

Allowance for Loan Losses

Atlantic Liberty's allowance for loan losses is maintained at a level necessary to absorb loan losses which are both probable and reasonably estimable. Management, in determining the allowance for loan losses, considers the risks inherent in its loan portfolio and changes in the nature and volume of loan activities, along with the general

Table of Contents

economic and real estate market conditions. Atlantic Liberty utilizes a two-tier approach: (1) identification of impaired loans and establishment of specific loss allowances on such loans; and (2) establishment of general valuation allowances on the remainder of its loan portfolio. Atlantic Liberty maintains a loan review system, which allows for a periodic review of its loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type and market value of collateral and financial condition of the borrowers. Specific loan loss allowances are established for identified losses based on a review of such information. A loan evaluated for impairment is considered to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans identified as impaired are evaluated independently. Atlantic Liberty does not aggregate such loans for evaluation purposes. Loan impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. General loan loss allowances are based upon a combination of factors including, but not limited to, actual loan loss experience, composition of the loan portfolio, current economic conditions, management's judgment and losses which are probable and reasonably estimable. The allowance is increased through provisions charged against current earnings and recoveries of previously charged-off loans. Loans which are determined to be uncollectible are charged against the allowance. While management uses available information to recognize probable and reasonably estimable loan losses, future loss provisions may be necessary based on changing economic conditions. Payments received on impaired loans are applied first to accrued interest receivable and then to principal. The allowance for loan losses as of December 31, 2005 was maintained at a level that represents management's best estimate of losses in the loan portfolio, and such losses were both probable and reasonably estimable.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review Atlantic Liberty's allowance for loan losses. Such agencies may require that Atlantic Liberty recognize additions to the allowance based on their judgments of information available to them at the time of their examination.

Table of Contents

Allowance for Loan Losses. The following table analyzes changes in the allowance for the periods presented.

	For the Nine Months Ended December 31,		For the Years Ended March 31,		
	2005	2004	2005	2004	2003
	(Dollars in thousands)				
Balance at beginning of period	\$ 737	\$ 582	\$ 582	\$ 484	\$ 435
Charge-offs:					
One- to four-family					9
Multi-family					
Commercial real estate					
Home equity					
Unsecured					
Total					
Recoveries:					
One- to four-family				98	
Multi-family					
Commercial real estate					
Home equity					
Unsecured	16	30	30		
Total	16	30	30	98	9
Net charge-offs (recoveries)	(16)	(30)	(30)	(98)	(9)
Provisions charged to operations (recovery credited to operations)		125	125		40
Balance at end of period	\$ 753	\$ 737	\$ 737	\$ 582	\$ 484
Ratio of (recoveries) net charge-offs during the period to average loans outstanding during the period	(0.01)%	(0.03)%	(0.03)%	(0.09)%	(0.01)%

Allocation of Allowance for Loan Losses. The following table presents an analysis of the allocation of the allowance for loan losses at the dates indicated. The allocation of the allowance to each category is not necessarily indicative of future loss in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	Amount of Loan Loss Allowance	At December 31, 2005	
		Loan Amounts by Category (Dollars in thousands)	Percent of Loans in each Category to Total Loans
One- to four-family	\$ 62	\$ 61,666	50.5%
Multi-family	174	27,799	22.7
Commercial real estate	388	31,050	25.4
Home equity	4	1,663	1.4
Unsecured			
Unallocated	125		
Total	\$ 753	\$ 122,178	100.0%

Table of Contents

	2005			At March 31, 2004			2003		
	Amount of Loan Loss Allowance	Loan Amounts by Category	Percent of Loans in each Category to Total Loans	Amount of Loan Loss Allowance	Loan Amounts by Category (Dollars in thousands)	Percent of Loans in Each Category to Total Loans	Amount of Loan Loss Allowance	Loan Amounts by Category	
One- to four-family	\$ 76	\$ 59,718	49.3%	\$ 83	\$ 62,500	54.9%	\$ 100	\$ 68,057	
Multi-family	138	27,668	22.9	108	21,831	19.2	74	14,860	
Commercial real estate	435	32,667	27.0	366	28,791	25.3	223	17,818	
Home equity	4	1,012	0.8	5	722	0.6	7	533	
Unsecured		34			6			22	
Unallocated	84			20			80		
Total	\$ 737	\$ 121,099	100.0%	\$ 582	\$ 113,850	100.0%	\$ 484	\$ 101,290	

Each quarter, management evaluates the total balance of the allowance for loan losses based on several factors that are not loan specific, but are reflective of the inherent losses in the loan portfolio. This process includes, but is not limited to, a periodic review of loan collectibility in light of historical experience, the nature and volume of loan activity, conditions that may affect the ability of the borrower to repay, underlying value of collateral, if applicable, and economic conditions in Atlantic Liberty's immediate market area. First, Atlantic Liberty groups loans by delinquency status. All loans 90 days or more delinquent are evaluated individually, based primarily on the value of the collateral securing the loan. Specific loss allowances are established as required by this analysis. All loans for which a specific loss allowance has not been assigned are segregated by type and delinquency status and a loss allowance is established by using loss experience data and management's judgment concerning other matters it considers significant. The allowance is allocated to each category of loan based on the results of the above analysis. Small differences between the allocated balances and recorded allowance are reflected as unallocated to absorb losses resulting from the inherent imprecision involved in the loss analysis process.

This analysis process is inherently subjective, as it requires Atlantic Liberty to make estimates that are susceptible to revisions as more information becomes available. Although Atlantic Liberty believes that it has established the allowance at levels to absorb probable and estimable losses, future additions may be necessary if economic or other conditions in the future differ from the current environment.

Investments

Atlantic Liberty's investment portfolio at December 31, 2005 consisted of investments of \$2.3 million in corporate obligations and notes of U.S. Government agencies and U.S. Government sponsored enterprises classified as available for sale, and \$3.0 million in corporate obligations and notes of U.S. Government agencies and U.S. Government sponsored enterprises classified as held to maturity. Atlantic Liberty also had an investment of \$2.2 million in Federal Home Loan Bank stock which has no stated maturity and had \$3.1 million in interest-earning deposits with other financial institutions which are payable on demand. Atlantic Liberty's investment policy objectives are to maintain liquidity within the guidelines established by the board of directors.

Atlantic Liberty also invests in mortgage-backed securities, substantially all of which are classified as held to maturity. Atlantic Liberty's mortgage-backed securities are principally adjustable rate instruments that reprice at one to seven year intervals. At December 31, 2005, mortgage-backed securities totaled \$35.2 million, or 19.9% of total assets.

Table of Contents

The following table sets forth the carrying value and composition of Atlantic Liberty's investment portfolio at the dates indicated.

	At December 31, 2005		At March 31, 2005		At March 31, 2004	
	Amortized	Estimated	Amortized	Estimated	Amortized	Estimated
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
(Dollars in thousands)						
Available for sale:						
U.S. Government or government-sponsored agencies:						
Due after eight years	\$ 2,000	\$ 1,974	\$ 2,000	\$ 1,985	\$ 2,000	\$ 2,043
Corporate bonds:						
Due after ten years	300	276	300	274	300	289
Total	\$ 2,300	\$ 2,250	\$ 2,300	\$ 2,259	\$ 2,300	\$ 2,332
Held to maturity:						
Corporate bonds:						
Due within one year	\$ 1,002	\$ 967	\$ 1,008	\$ 1,020	\$ 1,016	\$ 1,019
U.S. Government or government-sponsored agencies:						
Due after eight years	2,000	1,974	3,000	2,980	1,000	1,085
Total	\$ 3,002	\$ 2,941	\$ 4,008	\$ 4,000	\$ 2,016	\$ 2,104

The following table sets forth the composition of Atlantic Liberty's mortgage-backed securities at the dates indicated.

	At December 31, 2005		At March 31, 2005		At March 31, 2004	
	Amortized	Estimated	Amortized	Estimated	Amortized	Estimated
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
(Dollars in thousands)						
Available for sale:						
Freddie Mac:						
Due after ten years	\$ 527	\$ 514	\$ 693	\$ 681	\$ 1,097	\$ 1,088
Held to maturity:						
Ginnie Mae						
	1,401	1,380	1,909	1,904	2,737	2,741
Freddie Mac						
	1,384	1,383	1,758	1,769	2,783	2,816
Fannie Mae						
	31,852	31,265	38,270	37,818	25,111	25,742
Collateralized Mortgage Obligations:						
Freddie Mac:						
	\$ 33	\$ 33	\$ 41	\$ 40	\$ 60	\$ 60
Total	\$ 35,197	\$ 34,575	\$ 41,978	\$ 41,531	\$ 30,691	\$ 31,359

Set forth below are the carrying value and estimated fair value of mortgage-backed securities by contractual maturity.

	At December 31, 2005		At March 31, 2005	
	Carrying	Estimated	Carrying	Estimated
	Value	Value	Value	Fair Value

	Fair Value (In thousands)			
	\$ 1	\$ 1	\$ 2	\$ 2
Due after one year through five years	\$ 1	\$ 1	\$ 2	\$ 2
Due after five years through ten years	95	92	36	36
Due after ten years	35,101	34,482	41,940	41,493
Total	\$ 35,197	\$ 34,575	\$ 41,978	\$ 41,531

Sources of Funds

General. Deposits have traditionally been the primary source of funds for use in lending and investment activities. In addition to deposits, funds are derived from scheduled loan payments, investment maturities, loan prepayments, retained earnings, income on earning assets and borrowings. While scheduled loan payments and income on earning assets are relatively stable sources of funds, deposit inflows and outflows can vary widely and are

Table of Contents

influenced by prevailing interest rates, market conditions and levels of competition. Borrowings from the Federal Home Loan Bank of New York may be used in the short-term to compensate for reductions in deposits and to fund loan growth. Advances from the FHLB were also used to fund leveraged growth transactions executed during the years ended March 31, 2005 and March 31, 2004.

Deposits. Deposits are not actively solicited outside of the New York City metropolitan area, and substantially all of Atlantic Liberty's depositors are persons who work or reside in Brooklyn, New York. Atlantic Liberty offers a selection of deposit instruments, including passbook savings accounts, money market accounts, fixed-term certificates of deposit, and individual retirement accounts. Deposit account terms vary, with the principal differences being the minimum balance required, the amount of time the funds must remain on deposit and the interest rate. Atlantic Liberty does not pay broker fees for any deposits.

Interest rates paid, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies and market rates, liquidity requirements, rates paid by competitors and growth goals. Personalized customer service and long-standing relationships with customers are relied upon to attract and retain deposits.

The flow of deposits is influenced significantly by general economic conditions, changes in money market and other prevailing interest rates and competition. The variety of deposit accounts offered allows Atlantic Liberty to be competitive in obtaining funds and responding to changes in consumer demand. In recent years, Atlantic Liberty has become more susceptible to short-term fluctuations in deposit flows as customers have become more interest rate conscious. Deposits are priced to reflect Atlantic Liberty's interest rate risk management and profitability objectives. Based on experience, management believes that passbook accounts and money market accounts are relatively stable sources of deposits. However, the ability to attract and maintain certificates of deposit, and the rates paid on these deposits, have been and will continue to be significantly affected by market conditions. At December 31, 2005, \$53.5 million, or 51.5% of Atlantic Liberty's deposit accounts were certificates of deposit, of which \$35.4 million have maturities of one year or less. A significant portion of the certificates of deposit consist of accounts that were opened at the direction of the county or surrogate court for the benefit of minors or others who are deemed to be incompetent to handle their affairs. At December 31, 2005, \$19.2 million of the certificates of deposit consisted of such court-directed deposits. Court-directed deposits must remain deposited at Atlantic Liberty Savings until the intended beneficiary attains his or her majority or is deemed competent to handle his or her own affairs.

Table of Contents

Deposit Accounts. The following table sets forth the dollar amount of savings deposits in the various types of deposit programs Atlantic Liberty offered as of the dates indicated.

	At December 31, 2005		At March 31, 2005		At March 31, 2004	
	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in thousands)						
Transactions and Savings Deposits:						
Demand:						
Non-interest-bearing	\$ 2,005	1.9%	\$ 1,981	1.8%	\$ 2,434	2.2%
Interest-bearing	9,187	8.8	9,507	8.7	6,350	5.9
Regular Savings	20,416	19.7	22,201	20.3	21,896	20.3
Money Market Accounts	18,809	18.1	22,555	20.7	21,265	19.7
Total Non-Certificates	\$ 50,417	48.5%	\$ 56,244	51.5%	\$ 51,945	48.1%
Certificates:						
0.00 1.99%	\$ 5,136	5.0%	\$ 24,762	22.7%	\$ 35,476	32.9%
2.00 3.99%	42,556	40.9	23,869	21.9	13,555	12.9
4.00 5.99%	5,824	5.6	4,228	3.9	6,785	6.3
6.00 7.99%					100	0.1
8.00 9.99%						
Total Certificates	53,516	51.5	52,859	48.5	55,916	51.9
Total Deposits	\$ 103,933	100.0%	\$ 109,103	100.0%	\$ 107,861	100.0%

Time Deposit Maturity Schedule. The following table presents, by rate category, the remaining period to maturity of time deposit accounts outstanding as of December 31, 2005.

	0.00-1.99%	2.00%-3.99%	4.00% - 5.99%	Total	Percent of Total
	(Dollars in thousands)				
Certificate accounts maturing in quarter ending:					
March 31, 2006	\$ 4,081	\$ 4,844	\$ 529	\$ 9,454	17.67%
June 30, 2006	654	11,789	1,435	13,878	25.93
September 30, 2006	149	5,916	1,098	7,163	13.38
December 31, 2006	138	4,663	100	4,901	9.16
March 31, 2007	102	2,969	127	3,198	5.98
June 30, 2007		1,642	666	2,308	4.31
September 30, 2007		1,129		1,129	2.11
December 31, 2007		1,114	118	1,232	2.30
March 31, 2008	12	1,345		1,357	2.54
June 30, 2008		1,252	110	1,362	2.54
September 30, 2008		886	311	1,197	2.24
December 31, 2008		822	14	836	1.56
Thereafter		4,185	1,316	5,501	10.28%
Total	\$ 5,136	\$ 42,556	\$ 5,824	\$ 53,516	100.0%
Percent of total	9.60%	79.52%	10.88%		

Table of Contents

Deposit Activity. The following table sets forth the deposit activities for the periods indicated.

	Nine Months Ended December 31,		Years Ended March 31,	
	2005	2004	2005	2004
	(Dollars in thousands)			
Opening balance	\$ 109,103	\$ 107,861	\$ 107,861	\$ 107,515
Deposits	116,678	118,221	157,256	144,416
Withdrawals	(123,285)	(116,306)	(157,680)	(145,810)
Interest credited	1,437	1,249	1,666	1,740
Ending balance	\$ 103,933	\$ 111,025	\$ 109,103	\$ 107,861
Net increase/(decrease)	\$ (5,170)	\$ 3,164	\$ 1,242	\$ 346
Percent increase/(decrease)	(4.74)%	2.93%	1.15%	0.32%

Certificates of Deposit. The following table indicates the amount of Atlantic Liberty's certificates of deposit by time remaining until maturity as of December 31, 2005.

	3 Months or Less	Over 3 to 6 Months	Maturity		Total
			Over 6 to 12 Months	Over 12 Months	
	(In thousands)				
Certificates of deposit less than \$100,000	\$ 6,259	\$ 9,817	\$ 8,910	\$ 15,431	\$ 40,417
Certificates of deposit of \$100,000 or more	3,195	4,061	3,154	2,689	13,099
Total certificates of deposit	\$ 9,454	\$ 13,878	\$ 12,064	\$ 18,120	\$ 53,516

Borrowings. Atlantic Liberty may obtain advances from the Federal Home Loan Bank of New York upon the security of the common stock it owns in the Federal Home Loan Bank and its qualifying residential mortgage loans and mortgage-backed securities, provided certain standards related to creditworthiness are met. These advances are made pursuant to several credit programs each of which has its own interest rate and range of maturities. Federal Home Loan Bank advances are generally available to meet seasonal and other withdrawals of deposit accounts and to permit increased lending and other investment activities. During the nine months ended December 31, 2005, Atlantic Liberty had \$18.5 million in gross borrowings and repayments of \$20.3 million. During the year ended March 31, 2005, Atlantic Liberty borrowed \$20.0 million, which it used to fund the purchase of mortgage-backed securities in a leveraged transaction which resulted in a positive interest rate spread.

Table of Contents

The following table sets forth the maturity, interest rate and balances of advances from the Federal Home Loan Bank of New York at December 31, 2005, March 31, 2005 and 2004. The average balances of Atlantic Liberty's Federal Home Loan Bank advances during the nine months ended December 31, 2005 and 2004 were \$41.8 million and \$42.5 million, respectively, and during the years ended March 31, 2005 and 2004 were \$42.7 million and \$14.1 million, respectively.

Maturity	Interest Rate	December 31,		March 31,
		2005	2005	2004
August 23, 2004	1.50%	\$	\$	\$ 4,000,000
August 30, 2004	4.63			600,000
November 19, 2004	1.48			2,000,000
April 21, 2005	1.69		3,000,000	
April 26, 2005	1.71		3,000,000	
July 27, 2005	2.63		2,000,000	
August 22, 2005	2.31		4,000,000	4,000,000
August 23, 2005	2.43		2,000,000	
August 30, 2005	4.94		300,000	300,000
November 21, 2005	2.21		2,000,000	2,000,000
April 21, 2006	2.43	3,000,000	3,000,000	
April 21, 2006	3.82	1,000,000		
April 26, 2006	2.45	3,000,000	3,000,000	
April 26, 2006	3.90	1,000,000		
May 9, 2006	3.95	1,500,000		
June 5, 2006	4.74	2,000,000		
August 7, 2006	3.14	1,750,000	1,750,000	
August 21, 2006	3.02	4,000,000	4,000,000	4,000,000
August 22, 2006	4.41	2,000,000		
August 30, 2006	5.16	300,000	300,000	300,000
April 23, 2007	3.05	3,000,000	3,000,000	
April 26, 2007	3.07	3,000,000	3,000,000	
July 27, 2007	4.46	1,000,000		
August 21, 2007	3.59	6,000,000	6,000,000	6,000,000
August 22, 2007	4.53	2,000,000		
August 23, 2007	3.42	1,000,000	1,000,000	
October 19, 2007	4.73	1,000,000		
October 26, 2007	4.88	1,000,000		
April 21, 2008	3.55	1,000,000	1,000,000	
April 28, 2008	3.57	1,000,000	1,000,000	
August 25, 2008	4.54	2,000,000		
		\$ 41,550,000	\$ 43,350,000	\$ 23,200,000
Weighted average rate		3.57%	2.76%	2.67%

Service Corporation Subsidiary

Atlantic Liberty does not have any subsidiary corporations.

Personnel

As of December 31, 2005, Atlantic Liberty had 20 full-time employees and four part-time employees. Atlantic Liberty's employees are not represented by any collective bargaining group. Management believes that it has good relations with its employees.

Federal Taxation

General. Atlantic Liberty and Atlantic Liberty Savings are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. Atlantic Liberty Savings' tax returns have not been audited during the past five years. The following discussion of federal taxation is intended only to

Table of Contents

summarize certain pertinent federal income tax matters and is not a comprehensive description of the tax rules applicable to Atlantic Liberty or Atlantic Liberty Savings.

Atlantic Liberty and Atlantic Liberty Savings file separate New York State and New York City income tax returns. New York State and New York City enacted legislation in 1996, which among other things, decoupled the Federal tax laws regarding thrift bad debt deductions and permits the continued use of the bad debt provisions that applied under federal law prior to the enactment of the 1996 Act. Provided Atlantic Liberty Savings continues to satisfy certain definitional tests and other conditions, for New York State and New York City income tax purposes, it is permitted to continue to use a reserve method for bad debt deductions. The deductible annual addition to such reserves may be computed using a specific formula based on an institution's loss history (the experience method) or a statutory percentage equal to 32% of its New York State and New York City taxable income (the percentage method) before bad debt deduction.

Method of Accounting. For Federal income tax purposes, Atlantic Liberty currently reports its income and expenses on a separate company basis on the accrual method of accounting and uses a tax year ending December 31 for filing its Federal income tax returns.

Bad Debt Reserves. Prior to the Small Business Protection Act of 1996 (the 1996 Act), Atlantic Liberty Savings was permitted to establish a reserve for bad debts and to make annual additions to the reserve. These additions could, within specified formula limits, be deducted in arriving at Atlantic Liberty's taxable income. Atlantic Liberty Savings was required to use the specific charge off method in computing its bad debt deduction beginning with its 1996 federal tax return. Savings institutions were required to recapture any excess reserves over those established as of December 31, 1987 (base year reserve). Atlantic Liberty Savings had no reserves subject to recapture.

Taxable Distributions and Recapture. Prior to the 1996 Act, bad debt reserves created prior to January 1, 1988 were subject to recapture into taxable income should Atlantic Liberty Savings fail to meet certain thrift asset and definitional tests. Federal legislation has eliminated these thrift related recapture rules.

At December 31, 2005, Atlantic Liberty's total federal pre-1988 base year reserve was approximately \$1.3 million. However, under current law, pre-1988 base year reserves remain subject to recapture should Atlantic Liberty Savings make certain non-dividend distributions, repurchase any of its stock, pay dividends in excess of tax earnings and profits, or cease to maintain a bank charter.

Alternative Minimum Tax. The Internal Revenue Code imposes an alternative minimum tax (AMT) at a rate of 20% on a base of regular taxable income plus certain tax preferences (alternative minimum taxable income or AMTI). The AMT is payable to the extent such AMTI is in excess of an exemption amount and the AMT exceeds the regular income tax. Net operating losses can offset no more than 90% of AMTI. Certain payments of AMT may be used as credits against regular tax liabilities in future years. Atlantic Liberty Savings has not been subject to the AMT and has no such amounts available as credits for carryover.

Net Operating Loss Carryovers. A financial institution may carry back net operating losses to the preceding two taxable years and forward to the succeeding 20 taxable years. At December 31, 2005, Atlantic Liberty Savings had no net operating loss carryforwards for federal income tax purposes.

Corporate Dividends-Received Deduction. Atlantic Liberty may exclude from its income 100% of dividends received from Atlantic Liberty Savings as a member of the same affiliated group of corporations. The corporate dividends-received deduction is 80% in the case of dividends received from corporations with which a corporate recipient does not file a consolidated return, and corporations which own less than 20% of the stock of a corporation distributing a dividend may deduct only 70% of dividends received or accrued on their behalf.

State Taxation

New York State Taxation. Atlantic Liberty and Atlantic Liberty Savings report income on a calendar year basis to New York State. New York State franchise tax on corporations is imposed in an amount equal to the greater of (a) 8.0% (for 2002) and 7.5% (for 2003 and forward) of entire net income allocable to New York State, (b) 3%

Table of Contents

of alternative entire net income allocable to New York State, (c) 0.01 % of the average value of assets allocable to New York State, or (d) nominal minimum tax. Entire net income is based on Federal taxable income, subject to certain modifications. Alternative entire net income is equal to entire net income without certain modifications.

General Supervision and Regulation

Atlantic Liberty Savings is examined and supervised by the Office of Thrift Supervision and the Federal Deposit Insurance Corporation. This regulation and supervision establishes a comprehensive framework of activities in which an institution may engage and is intended primarily for the protection of the Federal Deposit Insurance Corporation's deposit insurance funds and depositors. Under this system of federal regulation, financial institutions are periodically examined to ensure that they satisfy applicable standards with respect to their capital adequacy, assets, management, earnings, liquidity and sensitivity to market interest rates. Following completion of its examination, the federal agency critiques the institution's operations and assigns its rating (known as an institution's CAMELS rating). Under federal law, an institution may not disclose its CAMELS rating to the public. Atlantic Liberty Savings also is a member of and owns stock in the Federal Home Loan Bank of New York, which is one of the 12 regional banks in the Federal Home Loan Bank System. Atlantic Liberty Savings also is regulated to a lesser extent by the Board of Governors of the Federal Reserve System, governing reserves to be maintained against deposits and other matters. The Office of Thrift Supervision examines Atlantic Liberty Savings and prepares reports for the consideration of its board of directors on any operating deficiencies. Atlantic Liberty Savings' relationship with its depositors and borrowers also is regulated to a great extent by both federal and state laws, especially in matters concerning the ownership of deposit accounts and the form and content of Atlantic Liberty Savings' mortgage documents.

Any change in these laws or regulations, whether by the Federal Deposit Insurance Corporation, Office of Thrift Supervision or Congress, could have a material adverse impact on Atlantic Liberty and Atlantic Liberty Savings and their operations.

Federal Banking Regulation

Business Activities. A federal savings association derives its lending and investment powers from the Home Owners' Loan Act, as amended, and the regulations of the Office of Thrift Supervision. Under these laws and regulations, Atlantic Liberty Savings may invest in mortgage loans secured by residential and commercial real estate, commercial business and consumer loans, certain types of debt securities and certain other assets. Atlantic Liberty Savings also may establish subsidiaries that may engage in activities not otherwise permissible for Atlantic Liberty Savings, including real estate investment and securities and insurance brokerage.

Capital Requirements. Office of Thrift Supervision regulations require savings associations to meet three minimum capital standards: a 1.5% tangible capital ratio, a 4% leverage ratio (3% for associations receiving the highest rating on the CAMELS rating system) and an 8% risk-based capital ratio. The prompt corrective action standards discussed below, in effect, establish a minimum 2% tangible capital standard.

The risk-based capital standard for savings associations requires the maintenance of Tier 1 (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100%, assigned by the Office of Thrift Supervision based on the risks believed inherent in the type of asset. Core capital is defined as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital. At December 31, 2005, Atlantic Liberty Savings' capital exceeded all applicable requirements.

Table of Contents

Loans-to-One Borrower. A federal savings association generally may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. As of December 31, 2005, Atlantic Liberty Savings was in compliance with the loans-to-one borrower limitations.

Qualified Thrift Lender Test. As a federal savings association, Atlantic Liberty Savings is subject to a qualified thrift lender, or QTL, test. Under the QTL test, Atlantic Liberty Savings must maintain at least 65% of its portfolio assets in qualified thrift investments in at least nine of the most recent 12 month period. Portfolio assets generally means total assets of a savings institution, less the sum of specified liquid assets up to 20% of total assets, goodwill and other intangible assets, and the value of property used in the conduct of the savings association's business.

Qualified thrift investments includes various types of loans made for residential and housing purposes, investments related to such purposes, including certain mortgage-backed and related securities, and loans for personal, family, household and certain other purposes up to a limit of 20% of portfolio assets. Qualified thrift investments also include 100% of an institution's credit card loans, education loans and small business loans. Atlantic Liberty Savings also may satisfy the QTL test by qualifying as a domestic building and loan association as defined in the Internal Revenue Code.

A savings association that fails the qualified thrift lender test must either convert to a bank charter or operate under specified restrictions. At December 31, 2005, Atlantic Liberty Savings maintained approximately 93% of its portfolio assets in qualified thrift investments.

Community Reinvestment Act and Fair Lending Laws. All savings associations have a responsibility under the Community Reinvestment Act and related regulations of the Office of Thrift Supervision to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In connection with its examination of a federal savings association, the Office of Thrift Supervision is required to assess the association's record of compliance with the Community Reinvestment Act. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. An association's failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in regulatory restrictions on its activities. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the Office of Thrift Supervision, as well as other federal regulatory agencies and the Department of Justice. Atlantic Liberty Savings received a satisfactory Community Reinvestment Act rating in its most recent federal examination.

Transactions with Related Parties. A federal savings association's authority to engage in transactions with its affiliates is limited by Office of Thrift Supervision regulations and by Sections 23A and 23B of the Federal Reserve Act (the FRA). The term affiliates for these purposes generally means any company that controls or is under common control with an institution. Atlantic Liberty is an affiliate of Atlantic Liberty Savings. In general, transactions with affiliates must be on terms that are as favorable to the association as comparable transactions with non-affiliates. In addition, certain types of these transactions are restricted to an aggregate percentage of the association's capital. Collateral in specified amounts must usually be provided by affiliates in order to receive loans from the association. In addition, Office of Thrift Supervision regulations prohibit a savings association from lending to any of its affiliates that are engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate, other than a subsidiary.

Atlantic Liberty Savings' authority to extend credit to its directors, executive officers and 10% shareholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the FRA and Regulation O of the Federal Reserve Board. Among other things, these provisions require that extensions of credit to insiders (i) be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features, and (ii) not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of Atlantic Liberty Savings' capital. In addition, extensions of credit in excess of certain limits must be approved by Atlantic Liberty Savings' board of directors.

Table of Contents

Enforcement. The Office of Thrift Supervision has primary enforcement responsibility over federal savings institutions and has the authority to bring enforcement action against all institution-affiliated parties, including stockholders, and attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors of the institution, receivership, conservatorship or the termination of deposit insurance. Civil penalties cover a wide range of violations and actions, and range up to \$25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as \$1 million per day. The Federal Deposit Insurance Corporation also has the authority to recommend to the Director of the Office of Thrift Supervision that enforcement action be taken with respect to a particular savings institution. If action is not taken by the Director, the Federal Deposit Insurance Corporation has authority to take action under specified circumstances.

Standards for Safety and Soundness. Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation, and other operational and managerial standards as the agency deems appropriate. The federal banking agencies adopted Interagency Guidelines Prescribing Standards for Safety and Soundness to implement the safety and soundness standards required under federal law. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The guidelines address internal controls and information systems, internal audit systems, credit underwriting, loan documentation, interest rate risk exposure, asset growth, compensation, fees and benefits. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to submit a compliance plan.

Prompt Corrective Action Regulations. Under the prompt corrective action regulations, the Office of Thrift Supervision is required and authorized to take supervisory actions against undercapitalized savings associations. For this purpose, a savings association is placed in one of the following five categories based on the association's capital:

well-capitalized (at least 5% leverage capital, 6% Tier 1 risk-based capital and 10% total risk-based capital);

adequately capitalized (at least 4% leverage capital, 4% Tier 1 risk-based capital and 8% total risk-based capital);

undercapitalized (less than 8% total risk-based capital, 4% Tier 1 risk-based capital or 3% leverage capital);

significantly undercapitalized (less than 6% total risk-based capital, 3% Tier 1 risk-based capital or 3% leverage capital); and

critically undercapitalized (less than 2% tangible capital).

Generally, the banking regulator is required to appoint a receiver or conservator for an association that is critically undercapitalized. The regulations also provide that a capital restoration plan must be filed with the Office of Thrift Supervision within 45 days of the date an association receives notice that it is undercapitalized, significantly undercapitalized or critically undercapitalized. In addition, numerous mandatory supervisory actions become immediately applicable to the association, including, but not limited to, restrictions on growth, investment activities, capital distributions and affiliate transactions. The Office of Thrift Supervision may also take any one of a number of discretionary supervisory actions against undercapitalized associations, including the issuance of a capital directive and the replacement of senior executive officers and directors. At December 31, 2005, Atlantic Liberty Savings met the criteria for being considered well-capitalized.

Table of Contents

Insurance of Deposit Accounts. Deposit accounts in Atlantic Liberty Savings are insured by the Federal Deposit Insurance Corporation, generally up to a maximum of \$100,000 per separately insured depositor, and up to a maximum of \$250,000 on certain retirement accounts, including traditional and Roth individual retirement accounts. Atlantic Liberty Savings deposits therefore are subject to Federal Deposit Insurance Corporation deposit insurance assessments. The Federal Deposit Insurance Corporation has adopted a risk-based system for determining deposit insurance assessments. The Federal Deposit Insurance Corporation is authorized to raise the assessment rates as necessary to maintain the required ratio of reserves to insured deposits of 1.25%. In addition, all Federal Deposit Insurance Corporation-insured institutions must pay assessments to the Federal Deposit Insurance Corporation at an annual rate of approximately .02% of insured deposits to fund interest payments on bonds maturing in 2017 issued by a federal agency to recapitalize the predecessor to the Savings Association Insurance Fund.

Prohibitions Against Tying Arrangements. Federal savings associations are prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

Federal Home Loan Bank System. Atlantic Liberty Savings is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions. As a member of the Federal Home Loan Bank of New York, Atlantic Liberty Savings is required to acquire and hold shares of capital stock in the Federal Home Loan Bank in an amount at least equal to 1% of the aggregate principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year, or 1/20 of its borrowings from the Federal Home Loan Bank, whichever is greater. As of December 31, 2005, Atlantic Liberty Savings was in compliance with this requirement.

 Holding Company Regulation

Atlantic Liberty is a unitary savings and loan holding company, subject to regulation and supervision by the Office of Thrift Supervision. The Office of Thrift Supervision has enforcement authority over Atlantic Liberty and its non-savings institution subsidiaries. Among other things, this authority permits the Office of Thrift Supervision to restrict or prohibit activities that are determined to be a risk to Atlantic Liberty Savings.

A unitary savings and loan holding company not existing or applied for before May 4, 1999 may only engage in those activities permissible for financial holding companies or for multiple savings and loan holding companies. Atlantic Liberty is not a grandfathered unitary savings and loan holding company and, therefore, is limited to the activities permissible for financial holding companies or for multiple savings and loan holding companies. A financial holding company may engage in activities that are financial in nature, including underwriting equity securities and insurance, incidental to financial activities or complementary to a financial activity. A multiple savings and loan holding company is generally limited to activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, subject to the prior approval of the Office of Thrift Supervision, and certain additional activities authorized by Office of Thrift Supervision regulations.

Federal law prohibits a savings and loan holding company, directly or indirectly, or through one or more subsidiaries, from acquiring control of another savings institution or holding company thereof, without prior written approval of the Office of Thrift Supervision. It also prohibits the acquisition or retention of, with specified exceptions, more than 5% of the equity securities of a company engaged in activities that are not closely related to banking or financial in nature or acquiring or retaining control of an institution that is not federally insured. In evaluating applications by holding companies to acquire savings institutions, the Office of Thrift Supervision must consider the financial and managerial resources, future prospects of the savings institution involved, the effect of the acquisition on the risk to the insurance fund, the convenience and needs of the community and competitive factors.

Table of Contents

The USA PATRIOT Act

The USA PATRIOT Act, which was signed into law on October 26, 2001, gives the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. Title III of the USA PATRIOT Act amended the Bank Secrecy Act by encouraging information sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions, including banks, thrifts, brokers, dealers, credit unions, money transfer agents and parties registered under the Commodity Exchange Act.

Among other requirements, Title III of the USA PATRIOT Act imposes the following requirements with respect to financial institutions:

All financial institutions must establish anti-money laundering programs that include, at minimum: (i) internal policies, procedures, and controls; (ii) specific designation of an anti-money laundering compliance officer; (iii) ongoing employee training programs; and (iv) an independent audit function to test the anti-money laundering program.

The Secretary of the Department of Treasury is authorized, in conjunction with other bank regulators, to issue regulations that provide for minimum standards with respect to customer identification at the time new accounts are opened. The Office of Thrift Supervision and the other federal bank regulators jointly issued rules implementing these standards, which require financial institutions to establish a program specifying procedures for obtaining identifying information from customers seeking to open new accounts.

All financial institutions that establish, maintain, administer, or manage private banking accounts or correspondence accounts in the United States for non-United States persons or their representatives (including foreign individuals visiting the United States) must establish appropriate, specific, and, where necessary, enhanced due diligence policies, procedures, and controls designed to detect and report money laundering.

Financial institutions are prohibited from establishing, maintaining, administering or managing correspondent accounts for foreign shell banks (foreign banks that do not have a physical presence in any country), and are subject to certain record keeping obligations with respect to correspondent accounts of foreign banks.

Bank regulators are directed to consider a holding company's effectiveness in combating money laundering when ruling on Federal Reserve Act and Bank Merger Act applications.

The federal banking agencies have adopted and implemented regulations pursuant to the USA PATRIOT Act. These regulations require financial institutions to adopt the policies and procedures contemplated by the USA PATRIOT Act.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley), mandates certain corporate governance, accounting and related reforms that intended to address corporate and accounting fraud. In addition to the establishment of a new accounting oversight board that is responsible for enforcing auditing, quality control and independence standards and is funded by fees from all publicly traded companies, Sarbanes-Oxley places certain restrictions on the scope of services that may be provided by accounting firms to their public company audit clients. Any non-audit services being provided to a public company audit client will require preapproval by the company's audit committee. In addition, Sarbanes-Oxley makes certain changes to the requirements for audit partner rotation after a period of time. Sarbanes-Oxley requires chief executive officers and chief financial officers, or their equivalent, to certify to the accuracy of periodic reports filed with the Securities and Exchange Commission, subject to civil and criminal penalties if they knowingly or willingly violate this certification requirement. The Company's Chief Executive Officer and Chief Financial Officer have signed certifications to this Form 10-KSB as required by Sarbanes-Oxley. In addition, under Sarbanes-Oxley, counsel will be required to report evidence of a material violation of the securities laws or a breach of fiduciary duty by a company to its chief executive officer or its chief

Table of Contents

legal officer, and, if such officer does not appropriately respond, to report such evidence to the audit committee or other similar committee of the board of directors or the board itself.

Under Sarbanes-Oxley, longer prison terms apply to corporate executives who violate federal securities laws; the period during which certain types of suits can be brought against a company or its officers is extended; and bonuses issued to top executives prior to restatement of a company's financial statements are now subject to disgorgement if such restatement was due to corporate misconduct. Executives are also prohibited from trading the company's securities during retirement plan blackout periods, and loans to company executives (other than loans by financial institutions permitted by federal rules and regulations) are restricted. In addition, a provision directs that civil penalties levied by the Securities and Exchange Commission as a result of any judicial or administrative action under Sarbanes-Oxley be deposited to a fund for the benefit of harmed investors. Sarbanes-Oxley also requires the Securities and Exchange Commission to develop methods of improving collection rates. Sarbanes-Oxley accelerates the time frame for disclosures by public companies, as they must immediately disclose any material changes in their financial condition or operations. Directors and executive officers must also provide information for most changes in ownership in a company's securities within two business days of the change.

Sarbanes-Oxley also increases the oversight of, and codifies certain requirements relating to audit committees of public companies and how they interact with the company's registered public accounting firm. Audit Committee members must be independent and are absolutely barred from accepting consulting, advisory or other compensatory fees from the issuer. In addition, companies must disclose whether at least one member of the committee is a financial expert (as such term is defined by the Securities and Exchange Commission) and if not, why not. Under Sarbanes-Oxley, a company's registered public accounting firm is prohibited from performing statutorily mandated audit services for a company if such company's chief executive officer, chief financial officer, comptroller, chief accounting officer or any person serving in equivalent positions had been employed by such firm and participated in the audit of such company during the one-year period preceding the audit initiation date. Sarbanes-Oxley also prohibits any officer or director of a company or any other person acting under their direction from taking any action to fraudulently influence, coerce, manipulate or mislead any independent accountant engaged in the audit of the company's financial statements for the purpose of rendering the financial statements materially misleading. Sarbanes-Oxley also requires the Securities and Exchange Commission to prescribe rules requiring inclusion of any internal control report and assessment by management in the annual report to shareholders. Sarbanes-Oxley requires the company's registered public accounting firm that issues the audit report to attest to and report on management's assessment of the company's internal controls.

Although we have incurred additional expense in complying with the provisions of the Sarbanes-Oxley Act and the resulting regulations, such compliance has not had a material impact on Atlantic Liberty's results of operations or financial condition.

Executive Officers of the Company

Listed below is information, as of March 31, 2006, concerning the Company's executive officers. There are no arrangements or understandings between the Company and any of the persons named below with respect to which he was or is to be selected as an officer.

Name	Age	Position and Term
Barry M. Donohue	65	President and Chief Executive Officer
William M. Gilfillan	61	Executive Vice President, Chief Financial Officer and Corporate Secretary

Availability of Annual Report on Form 10-KSB and Quarterly Reports on Form 10-QSB

Atlantic Liberty's Annual Report on Form 10-KSB and Quarterly Reports on Form 10-QSB may be accessed on its website at www.atlanticlibertysavings.com.

Table of Contents

Reports to Security Holders.

Atlantic Liberty files periodic and current reports, proxy and information statements, and other information with the Securities and Exchange Commission. Such reports are available on the Securities and Exchange Commission's website at www.sec.gov, or at the Securities and Exchange Commission's Public Reference Room at 450 Fifth Street, NW, Washington D.C. 20549. Information may be obtained on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330.

Properties

The following table provides certain information with respect to Atlantic Liberty's offices as of December 31, 2005:

Location	Leased or Owned	Year Acquired	Book Value
Main Office:	Owned	1983	\$ 1.2 million
186 Montague Street			
Brooklyn, NY 11201			
Branch Office:	Owned	1978	\$ 400,000
1402 Avenue J			
Brooklyn, NY 11230			

The net book value of Atlantic Liberty's premises, land and equipment was approximately \$1.7 million at December 31, 2005.

Legal Proceedings

On December 27, 2005, the complaint Lowinger v Atlantic Liberty, et al. was filed in the Court of Chancery of the State of Delaware in and for New Castle County. The complaint named Atlantic Liberty, each of Atlantic Liberty's directors, Atlantic Liberty's Chief Financial Officer and Flushing Financial as defendants, in a proposed class action lawsuit in which the plaintiff on behalf of herself, and other similarly situated persons, alleging that Atlantic Liberty and its board of directors and certain executive officers breached their fiduciary duties to Atlantic Liberty and its shareholders by entering into a merger agreement with Flushing Financial for a price per share which was below the current trading price and caused Atlantic Liberty's closing price per share to drop from \$28.02 per share to \$22.50 per share, while also agreeing to change of control payments to Atlantic Liberty's directors and certain executive officers, in excess of \$3.0 million. The complaint also alleges that Atlantic Liberty would pay Flushing Financial a termination fee of \$2.5 million in the event that Atlantic Liberty fails to proceed with the acquisition and that Atlantic Liberty has not publicly disclosed any information about any sale process undertaken to ascertain the universe of potential buyers. The complaint also alleges that Flushing Financial rendered knowing assistance to Atlantic Liberty's directors and certain executive officers in their breach of fiduciary duties. The plaintiff is requesting that (i) the court declare the complaint to be a proper class action, (ii) the termination fee entered into as part of the merger agreement be voided, (iii) unspecified compensation or recessionary damages be awarded, (iv) a constructive trust be established for the benefit of the class which will contain all special payments to the individual defendants and (v) plaintiffs receive costs and disbursements.

On December 28, 2005, the complaint Sontag v Atlantic Liberty, et al. was filed in the Court of Chancery of the State of Delaware in and for New Castle County. The complaint makes similar factual allegations as the Lowinger complaint and names as defendants the individual directors of Atlantic Liberty, as well as Atlantic Liberty's Chief Financial Officer and Flushing Financial. The complaint requests that the court (i) declare that the defendants breached their fiduciary duties, (ii) preliminarily and permanently enjoin the defendants and their counsel, agents, employees and all persons acting in concert from proceeding with, consummating or closing the merger, (iii) declare the action to be a proper class action and certify the named plaintiff as representative of the class; (iv) award costs and disbursements, counsel and expert fees and prejudgment interest.

Atlantic Liberty and Flushing Financial have reviewed each of these complaints and, in consultation with counsel, have concluded that the complaints are without merit and that the allegations are incorrect as to the facts or

Table of Contents

the law, or both and do not take into account Sandler O'Neill's solicitation of indications of interest for Atlantic Liberty. See "The Proposed Merger - Pending Litigation." Atlantic Liberty and Flushing Financial intended to vigorously defend the lawsuits and expected to prevail on the merits. However, after the production of documents and several depositions, and to reduce the costs and risks of litigation, Atlantic Liberty, Flushing Financial and the plaintiffs discussed the possibility of entering into a settlement agreement which would reduce the dollar amount of the termination fee payable to Flushing Financial by Atlantic Liberty pursuant to the merger agreement, as described above in "The Proposed Merger - Termination; Amendment; Waiver," from \$2.5 million to \$2.0 million, and would give each of the plaintiffs the opportunity to comment on the disclosures in this proxy statement/prospectus. On April 6, 2006, the parties entered into A Stipulation and Agreement of Compromise, Settlement and Release to that effect, which stipulation is subject to the approval of the Delaware Court of Chancery.

Management's Discussion and Analysis of Financial Condition and Results of Operations**Comparison of Financial Condition at December 31, 2005 and March 31, 2005**

Atlantic Liberty's assets decreased \$7.0 million, or 3.8%, to \$177.0 million at December 31, 2005 from \$184.0 million at March 31, 2005. During the nine-months ended December 31, 2005, mortgage-backed securities held to maturity decreased \$6.8 million, or 16.2%, to \$35.2 million from \$42.0 million at March 31, 2005. Investment securities held to maturity decreased \$1.0 million, or 25.0%, to \$3.0 million at December 31, 2005 from \$4.0 million at March 31, 2005. In addition, cash and cash equivalents decreased \$700,000, or 10.9%, to \$5.7 million at December 31, 2005 from \$6.4 million at March 31, 2005. During the nine-months ended December 31, 2005, net loans receivable increased \$1.2 million, or 1.0%, to \$121.3 million from \$120.1 million at March 31, 2005. The increase resulted principally from new multi-family mortgages of \$7.9 million, \$2.3 million of which were purchased from other financial institutions, as well as originations of one- to four-family mortgage loans of \$10.3 million. Additionally, Atlantic Liberty originated \$7.1 million of new commercial mortgages during the period.

Deposits totaled \$103.9 million at December 31, 2005 a decrease of \$5.2 million, or 4.8%, from \$109.1 million at March 31, 2005. Advances from the Federal Home Loan Bank of New York decreased \$1.8 million to \$41.6 million at December 31, 2005 from \$43.4 million at March 31, 2005. Stockholders' equity increased \$600,000, or 2.2%, to \$28.4 million at December 31, 2005 from \$27.8 million at March 31, 2005, primarily as the result of including net income of \$120,000 for the nine-months ended December 31, 2005, and the issuance of common stock to fund early vesting of restricted stock awards.

Comparison of Results of Operations for the Three Months Ended December 31, 2005 and December 31, 2004

General. Atlantic Liberty recorded a loss for the three-months ended December 31, 2005 of \$722,000 as compared to earnings of \$486,000 for the three-months ended December 31, 2004. The decrease in earnings was primarily due to decreases of \$108,000 in net interest income and \$130,000 in non-interest income, and an increase of \$1.7 million in non-interest expense, partially offset by a decrease of \$766,000 in income tax expense. Earnings for the quarter ended December 31, 2005 include non-recurring expenses of \$1,860,000 associated with the proposed merger of Atlantic Liberty with Flushing. These non-recurring expenses were undertaken in connection with the proposed merger and include the acceleration and payment in 2005 of amounts due to certain executives under their employment agreements, as well as the accelerated vesting of restricted stock awards. The payments under the employment agreements and the acceleration of restricted stock awards occurred in 2005 in order to take advantage of tax planning opportunities relating to the pending merger with Flushing. After tax benefits, the non-recurring expenses reduced income by \$1.1 million or \$0.68 per share (\$0.66 per share fully diluted) for the three-months ended December 31, 2005.

Interest Income. Interest income increased \$47,000 during the comparative three-months ended December 31, 2005 and 2004. The increase in interest income resulted primarily from increases of \$79,000 in interest received on loans, \$18,000 in interest received on securities available for sale, \$10,000 in interest received on securities held to maturity and \$13,000 in interest on other interest earning assets, partially offset by a decrease of \$73,000 in interest on mortgage backed securities.

Table of Contents

Interest income from loans increased \$79,000, or 4.0%, to \$2.0 million for the three-months ended December 31, 2005 from \$1.9 million for the three-months ended December 31, 2004. The average balance of loans outstanding increased by \$3.2 million, or 2.7%, to \$122.4 million for the quarter ended December 31, 2005 from \$119.2 million for the quarter ended December 31, 2004. The average yield on loans increased 8 basis points to 6.64% for the three-months ended December 31, 2005 from 6.56% for the three-months ended December 31, 2004.

Interest income on securities available for sale increased \$18,000, or 94.8%, to \$37,000 for the three-months ended December 31, 2005 from \$19,000 for the three-months ended December 31, 2004. The increase was primarily due to an increase in the average yield of 18 basis points to 5.14% from 4.96%, together with an increase in the average balance of securities available for sale of \$800,000 million, or 38.1%, to \$2.9 million for the quarter ended December 31, 2005 from \$2.1 million for the quarter ended December 31, 2004.

Interest income on securities held to maturity increased \$10,000, or 30.3%, to \$43,000 for the three-months ended December 31, 2005 from \$33,000 for the three-months ended December 2004. The increase in interest income on securities held to maturity was due to an increase of \$1.3 million in the average balance of securities held to maturity to \$3.0 million for the three-months ended December 31, 2005 from \$1.7 million in the comparable period in 2004, partially offset by a decrease in the average yield of 19 basis points to 5.73% from 5.92% for the respective periods.

Interest income on other interest earning assets increased \$13,000, or 28.9%, to \$58,000 for the three-months ended December 31, 2005 from \$45,000 for the same period in 2004. The increase was due to an increase of 249 basis points in the average yield, partially offset by a decrease in the average balance of other interest earning assets to \$5.4 million from \$9.7 million.

Interest income on mortgaged-backed securities held to maturity decreased \$73,000, or 16.0%, to \$382,000 for the three-months ended December 31, 2005 from \$455,000 for the same period in 2004. The decrease was due to a decrease of \$8.6 million, or 19.1%, in average mortgaged-backed securities held to maturity to \$36.4 million for the three-months ended December 31, 2005 from \$45.0 million for the three-months ended December 31, 2004, partially offset by an increase in the average yield on mortgage-backed securities held to maturity of 16 basis points to 4.20% for the three-months ended December 31, 2005 from 4.04% for the three-months ended December 31, 2004.

Interest Expense. Total interest expense increased by \$155,000, or 21.3%, to \$884,000 for the three-months ended December 31, 2005 from \$729,000 for the three-months ended December 31, 2004. The increase in interest expense resulted primarily from an increase in the average cost of interest bearing liabilities of 55 basis points to 2.45% from 1.90%, partially offset by a decrease of \$8.9 million in the average balance of interest bearing liabilities to \$144.2 million from \$153.1 million.

Interest expense on deposits increased \$96,000, or 22.9%, to \$516,000 for the three-months ended December 31, 2005 from \$420,000 for the three-months ended December 31, 2004. Although the average balance of certificate of deposit accounts decreased \$900,000 to \$53.1 million for the three-months ended December 31, 2005, from \$54.0 million for the three-months ended December 31, 2004, the average cost on such accounts increased to 2.88% from 2.20%. In addition, the average cost of transactions and savings deposits increased 19 basis points to 1.10% for the three-months ended December 31, 2005 from 0.91% for the three-months ended December 31, 2004, although the average balance of transaction and savings deposits decreased \$4.9 million to \$48.6 million for the three-months ended December 31, 2005 from \$53.5 million in the prior year.

Interest expense on Federal Home Loan Bank advances was \$363,000 for the three-months ended December 31, 2005, an increase of \$58,000 from the \$305,000 for in the three-months ended December 31, 2004. While average Federal Home Loan Bank advances decreased to \$41.4 million for the three-months ended December 31, 2005 from \$44.4 million in the prior comparative period, the average cost of Federal Home Loan Bank advances increased 78 basis points to 3.52% from 2.74%.

Net Interest Income. Net interest income decreased \$108,000, or 0.7%, to \$1.7 million for the three-months ended September 30, 2005 from \$1.8 million for the three-months ended December 31, 2004. The decrease in Atlantic Liberty's net interest income for the three-months ended December 31, 2005 compared to the prior year's

Table of Contents

quarter is primarily attributable to a \$7.7 million decrease in average interest earning assets together with a decrease in Atlantic Liberty's net interest spread of 18 basis points to 3.55% from 3.73%. Atlantic Liberty's net interest margin for the quarter ended December 31, 2005 compared to the prior period decreased 7 basis points to 3.93% from 4.00%.

Provision for Loan Losses. Atlantic Liberty establishes provisions for loan losses, which are charged to operations, at a level management believes is appropriate to absorb probable credit losses in the loan portfolio. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, peer group information, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available or as future events change. Based on Atlantic Liberty's evaluation of these factors, management did not make a provision for loan losses for the three-months ended December 31, 2005 and the three-months ended December 31, 2004.

Atlantic Liberty used the same methodology and generally similar assumptions in assessing the adequacy of the allowance for both periods. The allowance for loan losses was \$753,000, or 0.62% of loans outstanding at December 31, 2005, as compared with \$737,000, or 0.62% of loans outstanding at December 31, 2004. There were no non-performing loans at December 31, 2005 and \$91,000 of non-performing loans at December 31, 2004. The level of the allowance is based on estimates and the ultimate losses may vary from the estimates.

Management assesses the allowance for loan losses on a quarterly basis and makes provisions for loan losses as necessary in order to maintain the adequacy of the allowance. While management uses available information to recognize losses on loans, future loan loss provisions may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as a part of their examination process, periodically will review the allowance for loan losses and may require Atlantic Liberty to recognize additional provisions based on their judgment of information available to them at the time of their examination. The allowance for loan losses as of December 31, 2005 is maintained at a level that represents management's best estimate of inherent losses in the loan portfolio, and such losses were both probable and reasonably estimable.

Non-Interest Income. Non-interest income decreased \$130,000, or 62.5%, to \$78,000 for the three-months ended December 31, 2005, as compared to \$208,000 for the three-months ended December 31, 2004. The decrease was due principally to decreases of \$67,000 in loan prepayment and other mortgage fees, \$29,000 in savings and checking fees and \$11,000 in other non-operating income, partially offset by an increase of \$11,000 in net appraisal fees. In addition, the quarter ended December 31, 2004 included the receipt of \$33,000 in life insurance proceeds from a policy covering a retired director. There was no similar amount received in the current quarter.

Non-Interest Expense. Non-interest expense for the three-months ended December 31, 2005 was \$2.9 million compared to \$1.2 million for the three-months ended December 31, 2004, an increase of \$1.7 million or 141.7%. The increase was primarily attributable to increases of \$1.3 million in salaries and employee benefits, representing the acceleration and payment in 2005 of amounts due to certain executives under their employment agreements, as well as the acceleration of the vesting of restricted stock awards, \$280,000 in legal fees and \$158,000 in miscellaneous expense, partially offset by decreases of \$7,000 in advertising expense, \$32,000 in net occupancy expense and \$13,000 in equipment expense. The increases in salaries and employee benefits, legal fees and miscellaneous expense result primarily from the pending merger with Flushing.

Income Tax (Benefit). There was an income tax benefit of \$422,000 for the three-months ended December 31, 2005 as compared to income tax expense of \$344,000 for the three-months ended December 31, 2004. The income tax benefit is primarily due to the loss before income taxes of \$1.1 million for the three-months ended December 31, 2005, compared with income before taxes of \$830,000 for the comparative 2004 period.

Comparison of Results of Operations for the Nine-Months Ended December 31, 2005 and December 31, 2004

General. Net income for the nine-months ended December 31, 2005 was \$120,000, a decrease of \$1.6 million from \$1.7 million for the nine-months ended December 31, 2004. The decrease in net income was primarily due to decreases of \$67,000 in net interest income and \$995,000 in non-interest income, and an increase of \$1.6

Table of Contents

million in non-interest expense, partially offset by decreases of \$125,000 in the provision for loan losses and \$968,000 in income tax expense. Earnings for the nine-months ended December 31, 2005 include non-recurring expenses of \$1,860,000 associated with the proposed merger with Flushing Financial. These non-recurring expenses include the acceleration and payment in 2005 of amounts due to certain executives under their employment agreements in connection with the proposed merger, as well as the accelerated vesting of restricted stock awards. The payments under the employment agreements and the acceleration of restricted stock awards occurred in 2005 in order to take advantage of tax planning opportunities relating to the pending merger with Flushing Financial. After tax benefits, the non-recurring expenses reduced income by \$1.1 million or \$0.69 per share (\$0.67 per share fully diluted) for the nine-months ended December 31, 2005. Additionally, earnings for the nine-months ended December 31, 2004 include non-recurring non-interest income of \$825,000 received in connection with the settlement of litigation. After taxes and legal fees, the settlement resulted in \$340,000 or \$0.22 per share for the nine-months ended December 31, 2004.

Interest Income. Interest income increased \$279,000 during the comparative nine-months ended December 31, 2005 and 2004. The increase in interest income resulted primarily from increases of \$329,000 in interest received on loans, \$4,000 in interest on securities available for sale, \$53,000 in interest received on securities held to maturity and \$67,000 in interest on other interest earning assets, partially offset by a decrease of \$174,000 in interest received on mortgage-backed securities.

Interest income from loans increased \$329,000, or 5.8%, to \$6.0 million for the nine-months ended December 31, 2005 from \$5.7 million for the nine-months ended December 31, 2004. The average balance of loans outstanding increased by \$5.7 million to \$122.9 million for the nine-months ended December 31, 2005 from \$117.2 million for the nine-months ended December 31, 2004. In addition, the average yield on loans increased 6 basis points to 6.54% for the nine-months ended December 31, 2005 from 6.48% for the nine-months ended December 31, 2004.

Interest income from securities available for sale increased \$4,000, or 3.8%, to \$109,000 for the nine-months ended December 31, 2005 from \$105,000 for the nine-months ended December 31, 2004. The increase was due principally to an increase in the average yield of 14 basis points to 5.14% from 5.00%.

Interest income on securities held to maturity increased \$53,000, or 62.4%, to \$138,000 for the nine-months ended December 31, 2005 from \$85,000 for the nine-months ended December 31, 2004. The increase was due to an increase of \$1.4 million in the average balance of investment securities held to maturity to \$3.2 million for the nine-months ended December 31, 2005 from \$1.8 million in the comparable period in 2004, partially offset by a decrease in the average yield of 38 basis points to 5.75% from 6.13% for the respective periods.

Interest income on other interest earning assets increased \$67,000, or 90.5%, to \$141,000 for the nine-months ended December 31, 2005 from \$74,000 for the same period in 2004. The increase was due to an increase of 254 basis points in the average yield to 4.04% from 1.50%, partially offset by a decrease in the average balance of other interest earning assets of \$1.9 million, or 28.8%, to \$4.7 million for the nine-months ended December 31, 2005 from \$6.6 million for the nine-months ended December 31, 2004.

Interest income from mortgage-backed securities decreased \$174,000, or 12.7%, to \$1.2 million for the nine-months ended December 31, 2005 from \$1.4 million for the same period in 2004. The decrease was due to a decrease of \$7.2 million, or 15.7%, in average mortgage-backed securities to \$38.6 million for the nine-months ended December 31, 2005 from 45.8 million for the nine-months ended December 31, 2004, partially offset by an increase in the average yield on mortgage-backed securities of 14 basis point to 4.14% for the nine-months ended December 31, 2005 from 4.00% for the nine-months ended December 31, 2004.

Interest Expense. Total interest expense increased by \$346,000, or 16.4%, to \$2.5 million for the nine-months ended December 31, 2005 from \$2.1 million for the nine-months ended December 31, 2004. The increase in interest expense resulted primarily from an increase in the average cost of interest bearing liabilities of 36 basis points to 2.23% from 1.87%, partially offset by a \$3.2 million decrease in the average balance of interest bearing liabilities to \$147.3 million from \$150.5 million.

Table of Contents

Interest expense on deposits increased \$188,000, or 15.1%, to \$1.4 million for the nine-months ended December 31, 2005 from \$1.2 million for the nine-months ended December 31, 2004. Although the average balance of certificate of deposit accounts decreased \$1.3 million to \$53.2 million for the nine-months ended December 31, 2005 from \$54.5 million for the nine-months ended December 31, 2004, the average cost on such accounts increased to 2.62% from 2.19%. In addition, the average cost of transaction and savings deposits increased 12 basis points to 1.02% for the nine-months ended December 31, 2005, from 0.90% for the nine-months ended December 31, 2004, although the average balance of such accounts decreased \$1.3 million to \$51.3 million from \$52.6 million.

Interest expense on Federal Home Loan Bank of New York advances was \$1.0 million for the nine-months ended December 31, 2005, an increase of \$157,000 from the \$854,000 for the nine-months ended December 31, 2004. Although, average Federal Home Loan Bank advances decreased to \$41.8 million for the nine-months ended December 31, 2005 from \$42.5 million in the prior comparative period, the average cost of such Federal Home Loan Bank advances increased 55 basis points to 3.23% from 2.68%.

Net Interest Income. Net interest income decreased \$67,000, or 1.3%, to \$5.16 million for the nine-months ended December 31, 2005 from \$5.22 million for the nine-months ended December 31, 2004. The decrease in Atlantic Liberty's net interest income for the nine-months ended December 31, 2005 compared to the prior nine-month period is primarily attributable to a \$2.0 million decrease in average interest earning assets, as well as a 7 basis point decrease in Atlantic Liberty's net interest spread to 3.67% from 3.74%. Atlantic Liberty's net interest margin for the nine-months ended December 31, 2005 compared to the prior period decreased 1 basis point to 3.99% from 4.00%.

Provision for Loan Losses. Atlantic Liberty establishes provisions for loan losses, which are charged to operations, at a level management believes is appropriate to absorb probable credit losses in the loan portfolio. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, peer group information, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available or as future events change. Based on its evaluation of these factors, management did not make a provision for loan losses for the nine-months ended December 31, 2005. A provision for loan losses of \$125,000 was made during the nine-months ended December 31, 2004. During the nine-months ended December 31, 2005, Atlantic Liberty also recorded \$16,000 in recoveries of previously charged off loans.

Atlantic Liberty used the same methodology and generally similar assumptions in assessing the adequacy of the allowance for both periods. The allowance for loan losses was \$753,000 or 0.62% of loans outstanding at December 31, 2005, as compared with \$737,000 or 0.62% of loans outstanding at December 31, 2004. There were no non-performing loans at December 31, 2005 and \$91,000 of non-performing loans at December 31, 2004. The level of the allowance is based on estimates and the ultimate losses may vary from the estimates.

Management assesses the allowance for loan losses on a quarterly basis and makes provisions for loan losses as necessary in order to maintain the adequacy of the allowance. While management uses available information to recognize losses on loans, future loan loss provisions may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as a part of their examination process, periodically will review the allowance for loan losses and may require Atlantic Liberty to recognize additional provisions based on their judgment of information available to them at the time of their examination. The allowance for loan losses as of December 31, 2005, is maintained at a level that represents management's best estimate of inherent losses in the loan portfolio, and such losses were both probable and reasonably estimable.

Non-Interest Income. Non-interest income decreased \$995,000, or 75.4%, to \$325,000 for the nine-months ended December 31, 2005, as compared to \$1.3 million for the nine-months ended December 31, 2004. The decrease was due principally to decreases of \$83,000 in loan prepayment penalty and other mortgage fees, \$8,000 in net appraisal fees, \$29,000 in savings and checking account fees and \$12,000 in other non-operating income. In addition, the nine-months ended December 31, 2004 included a non-recurring litigation settlement of \$825,000 and the receipt of life insurance proceeds of \$33,000. There were no similar amounts received during the nine-months ended December 31, 2005.

Table of Contents

Non-Interest Expense. Non-interest expense for the nine-months ended December 31, 2005 was \$5.2 million compared to \$3.6 million for the nine-months ended December 31, 2004, an increase of \$1.6 million or 44.4%. The increase was primarily attributable to increases of \$1.4 million in salaries and benefits representing the acceleration and payment in 2005 of amounts due to certain executives under their employment agreements, as well as the acceleration of the vesting of restricted stock awards, \$50,000 in legal fees, and \$164,000 in miscellaneous expenses, partially offset by a decrease of \$33,000 in net occupancy expense, \$9,000 in equipment expense and \$11,000 in directors' compensation. The increases in salaries and employee benefits, legal fees and miscellaneous expense result primarily from the pending merger with Flushing.

Income Tax Expense. The provision for income taxes decreased to \$224,000 for the nine-months ended December 31, 2005 from \$1.2 million for the nine-months ended December 31, 2004. The decrease in income tax expense is primarily due to a lower level of income before taxes of \$344,000 for the nine-months ended December 31, 2005, compared with income before taxes of \$2.8 million for the comparative 2004 period.

Liquidity and Capital Resources

Liquidity. The Association must maintain an adequate level of liquidity to ensure the availability of sufficient funds to fund loan originations and deposit withdrawals, to satisfy other financial commitments, and to take advantage of investment opportunities. The Association invests excess funds in overnight deposits and other short-term interest-earning assets to provide liquidity to meet these needs. At December 31, 2005, cash and cash equivalents totaled \$5.7 million. At December 31, 2005, the Association had commitments to funds loans of \$12.8 million. At December 31, 2005, certificates of deposit represented 51.5% of total deposits. The Association expects to retain these deposit accounts. In addition, the Association could borrow up to \$10.7 million from the Federal Home Loan Bank of New York without providing additional collateral. The Association considers its liquidity and capital resources sufficient to meet its outstanding short-term and long-term needs.

Capital Resources. The Association is subject to various regulatory capital requirements administered by federal regulatory agencies. The following table summarizes the Association's regulatory capital requirements versus actual capital as of December 31, 2005:

	Actual Amount	%	Required Amount	%	Excess Amount	%
	(Dollars in millions)					
Core capital (to adjusted total assets)	\$ 21.6	12.3%	\$ 7.0	4.0%	\$ 14.6	8.3%
Risk-based capital to (risk-weighted assets)	\$ 22.3	22.5%	\$ 8.0	8.0%	\$ 14.3	14.5%

Management of Market Risk

General. The majority of Atlantic Liberty's assets and liabilities are monetary in nature. Consequently, its most significant form of market risk is interest rate risk. Atlantic Liberty's assets, consisting primarily of mortgage loans, have longer maturities than Atlantic Liberty's liabilities, consisting primarily of deposits. As a result, a principal part of Atlantic Liberty's business strategy is to manage interest rate risk and reduce the exposure of Atlantic Liberty's net interest income to changes in market interest rates. Accordingly, Atlantic Liberty's board of directors has established an Asset/Liability Management Committee which is responsible for evaluating the interest rate risk inherent in Atlantic Liberty's assets and liabilities, for determining the level of risk that is appropriate given Atlantic Liberty's business strategy, operating environment, capital, liquidity and performance objectives, and for managing the risk consistent with the guidelines approved by the board of directors. Senior management monitors the level of interest rate risk on a regular basis and the Asset/Liability Management Committee, which consists of senior management operating under a policy adopted by the board of directors, meets as needed to review Atlantic Liberty's asset/liability policies and interest rate risk position. Atlantic Liberty has sought to manage its interest rate risk by more closely matching the maturities of Atlantic Liberty's interest rate sensitive assets and liabilities. In particular, Atlantic Liberty offers one, three, and five year adjustable rate mortgage loans, a loan product that has a

Table of Contents

fixed rate of interest for seven years and which adjusts annually thereafter, and three and five year balloon loans. Atlantic Liberty also invests in mortgage-backed securities the majority of which reprice within one and three years. Atlantic Liberty does not solicit high-rate jumbo certificates of deposit or brokered funds.

Net Portfolio Value. In past years, many savings associations have measured interest rate sensitivity by computing the gap between the assets and liabilities which are expected to mature or reprice within certain time periods, based on assumptions regarding loan prepayment and deposit decay rates formerly provided by the Office of Thrift Supervision. However, the Office of Thrift Supervision now requires the computation of amounts by which the net present value of an institution's cash flow from assets, liabilities and off balance sheet items (the institution's net portfolio value) would change in the event of a range of assumed changes in market interest rates. The Office of Thrift Supervision provides all institutions that file a Consolidated Maturity/Rate Schedule as a part of their quarterly Thrift Financial Report with an interest rate sensitivity report of net portfolio value. The Office of Thrift Supervision simulation model uses a discounted cash flow analysis and an option-based pricing approach to measure the interest rate sensitivity of net portfolio value. Historically, the Office of Thrift Supervision model estimated the economic value of each type of asset, liability and off-balance sheet contract under the assumption that the United States Treasury yield curve increases or decreases instantaneously by 100 to 300 basis points in 100 basis point increments. However, given the current low level of market interest rates, Atlantic Liberty did not receive a net portfolio value calculation for an interest rate decrease of greater than 100 basis points. A basis point equals one-hundredth of one percent, and 100 basis points equals one percent. An increase in interest rates from 3% to 4% would mean, for example, a 100 basis point increase in the Change in Interest Rates column below. The Office of Thrift Supervision provides Atlantic Liberty the results of the interest rate sensitivity model, which is based on information Atlantic Liberty provide to the Office of Thrift Supervision to estimate the sensitivity of Atlantic Liberty's net portfolio value.

The table below sets forth, as of December 31, 2005, the latest date for which the Office of Thrift Supervision has provided to Atlantic Liberty Savings an interest rate sensitivity report of net portfolio value, the estimated changes in Atlantic Liberty's net portfolio value that would result from the designated instantaneous changes in the United States Treasury yield curve.

Change in Interest Rates (basis points)	Net Portfolio Value (Dollars are in 000s)		Percent Change	Net Portfolio Value as a % of Present Value of Assets	
	\$Amount	\$Change		Net Portfolio Value Ratio (Dollars in thousands)	Change
+300	\$ 19,947	\$ (7,412)	(27)%	11.85%	(349) basis points
+200	22,483	(4,877)	(18)	13.10	(225) basis points
+100	24,982	(2,377)	(9)	14.28	(107) basis points
0	27,359			15.35	basis points
-100	29,310	1,950	+7	16.18	+83 basis points
-200	30,506	3,147	+12	16.64	+129 basis points

The table above indicates that at December 31, 2005, in the event of a 200 basis point decrease in interest rates, Atlantic Liberty would experience a 12% increase in net portfolio value. In the event of a 200 basis point increase in interest rates, Atlantic Liberty would experience an 18% decrease in net portfolio value.

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurement. Modeling changes in net portfolio value require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the net portfolio value table presented assumes that the composition of Atlantic Liberty's interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the net portfolio value table provides an indication of Atlantic Liberty's interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on its net interest income and will differ from actual results.

Table of Contents

ADJOURNMENT OF THE SPECIAL MEETING

(Proposal Two)

In the event that there are not sufficient votes to constitute a quorum or approve the adoption of the merger agreement at the time of the special meeting, the merger agreement can not be approved unless the meeting is adjourned to a later date or dates in order to permit further solicitation of proxies. Under Atlantic Liberty's bylaws, written notice of an adjourned meeting need not be given to stockholders if the date, place and time thereof are announced at the special meeting and the date of the adjourned meeting is not more than 30 days after the original date of the special meeting.

In order to allow proxies that have been received by Atlantic Liberty at the time of the special meeting to be voted for an adjournment, if necessary, Atlantic Liberty has submitted the question of adjournment to its stockholders as a separate matter for their consideration. The board of directors of Atlantic Liberty recommends that stockholders vote **FOR** the adjournment proposal.

OTHER MATTERS

As of the date of this document, the Atlantic Liberty board of directors does not know of any matters that will be presented for consideration at the special meeting other than as described in this document. **At the special meeting, the only business that will be conducted is that which is brought before the meeting by or at the direction of the board of directors.**

Stockholder Proposals For 2006 Annual Meeting

Atlantic Liberty will hold a 2006 annual meeting only if the merger with Flushing Financial is not consummated before the time of the meeting. If such a meeting is to be held, a stockholder proposal must be received by the Corporate Secretary of Atlantic Liberty by no later than April 19, 2006 to be included in the proxy statement and form of proxy for the meeting. Any such proposal will be subject to Rule 14a-8 of the rules and regulations of the Securities and Exchange Commission. Nothing in this paragraph shall be deemed to require Atlantic Liberty to include in its proxy statement and proxy card relating to any special meeting any stockholder proposal or nomination which does not meet all of the requirements for inclusion established by the Securities and Exchange Commission in effect at the time such proposal is received.

Notice of Business to be Conducted at an Annual Meeting

To be considered for presentation at the next annual meeting of stockholders (if one is held), although not included in the proxy materials, any stockholder proposal must be delivered to the Corporate Secretary not less than 90 days before the date fixed for the annual meeting; provided, however that in the event that less than 100 days notice or prior public disclosure of the date of the meeting is given or made, to be timely, notice by the stockholder must be received no later than the close of business on the 10th day following the date on which notice of the date of the meeting is mailed or made publicly available to stockholders. A stockholder's notice shall set forth such information as required by the bylaws of Atlantic Liberty.

YOU ARE CORDIALLY INVITED TO ATTEND THE SPECIAL MEETING IN PERSON. WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING, PLEASE SIGN AND PROMPTLY RETURN THE ACCOMPANYING PROXY IN THE ENCLOSED POSTAGE-PAID ENVELOPE.

Table of Contents

EXPERTS

Flushing Financial's financial statements and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this Prospectus by reference to the Annual Report on Form 10-K for the year ended December 31, 2005 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

Atlantic Liberty's financial statements as of March 31, 2005 and 2004, and for each of the years in the two-year period ended March 31, 2005, have been included herein in reliance upon the report of Beard Miller Company LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

LEGAL OPINIONS

The validity of the common stock to be issued in the merger will be passed upon by Thacher Proffitt & Wood LLP, New York, special counsel to Flushing Financial. Thacher Proffitt & Wood LLP and Luse Gorman Pomerenk & Schick, P.C., special counsel to Atlantic Liberty, will each deliver its opinion to Flushing Financial and Atlantic Liberty, respectively, as to material federal income tax consequences of the merger.

WHERE YOU CAN FIND MORE INFORMATION

Flushing Financial has filed with the Securities and Exchange Commission a registration statement under the Securities Act of 1933 that registers the distribution to Atlantic Liberty stockholders of the shares of Flushing Financial common stock to be issued in connection with the merger. The registration statement, including the attached exhibits and schedules, contains additional relevant information about Flushing Financial and Flushing Financial's stock.

The rules and regulations of the Securities and Exchange Commission allow us to omit certain information included in the registration statement from this document. You may read and copy this information at the Public Reference Room of the Securities and Exchange Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Securities and Exchange Commission's Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission also maintains an internet website that contains reports, proxy and information statements and other information about issuers, like Flushing Financial and Atlantic Liberty, that file electronically with the Securities and Exchange Commission. The address of the site is www.sec.gov. The reports and other information filed by Flushing Financial with the Securities and Exchange Commission are also available at Flushing Financial's website. The address is www.flushingsavings.com. The reports and other information filed by Atlantic Liberty with the Securities and Exchange Commission are also available at Atlantic Liberty's website. The address is www.atlantilibertysavings.com. We have included the web addresses of the Securities Exchange Commission, Flushing Financial and Atlantic Liberty as inactive textual references only. Except as specifically incorporated by reference into this proxy statement/prospectus, information on those web sites is not part of this proxy statement/prospectus.

You should also be able to inspect reports, proxy statements and other information about Flushing Financial and Atlantic Liberty at the offices of the Nasdaq Stock Market, Inc.

The Securities and Exchange Commission allows Flushing Financial to incorporate certain information into this document by reference to other information that has been filed with the Securities and Exchange Commission. The information incorporated by reference is deemed to be part of this document, except for any information that is superseded by information in this document. The documents that are incorporated by reference contain important information about Flushing Financial and you should read this document together with any other documents incorporated by reference in this document.

This document incorporates by reference the following documents that have previously been filed with the Securities and Exchange Commission by Flushing Financial:

Annual Report on Form 10-K for the year ended December 31, 2005;

Table of Contents

Current Report on Form 8-K filed on February 22, 2006; and

The description of Flushing Financial common stock set forth in the registration statement on Form 8-A, filed on September 25, 1995 pursuant to Section 12 of the Securities Exchange Act, including any amendment or report filed with the Securities and Exchange Commission for the purpose of updating this description.

In addition, Flushing Financial is incorporating by reference any documents it may file under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, after the date of this document and prior to the date of the Atlantic Liberty special meeting.

Flushing Financial has supplied all information contained or incorporated by reference in this document relating to Flushing Financial, and Atlantic Liberty has supplied all information relating to Atlantic Liberty.

Neither Flushing Financial nor Atlantic Liberty has authorized anyone to give any information or make any representation about the merger or our companies that is different from, or in addition to, that contained in this document or in any of the materials that have been incorporated into this document. Therefore, if anyone does give you information of this sort, you should not rely on it. If you are in a jurisdiction where offers to exchange or sell, or solicitations of offers to exchange or purchase, the securities offered by this document or the solicitation of proxies is unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this document does not extend to you. The information contained in this document speaks only as of the date of this document unless the information specifically indicates that another date applies.

This document contains a description of the representations and warranties that each of Flushing Financial and Atlantic Liberty made to the other in the merger agreement. Representations and warranties made by Flushing Financial, Atlantic Liberty and other applicable parties are also set forth in contracts and other documents (including the merger agreement) that are attached or filed as exhibits to this document or are incorporated by reference into this document. These representations and warranties were made as of specific dates, may be subject to important qualifications and limitations agreed to between the parties in connection with negotiating the terms of the agreement, and may have been included in the agreement for the purpose of allocating risk between the parties rather than to establish matters as facts. These materials are included or incorporated by reference only to provide you with information regarding the terms and conditions of the agreements, and not to provide any other factual information regarding Atlantic Liberty, Flushing Financial or their respective businesses. Accordingly, the representations and warranties and other provisions of the agreements (including the merger agreement) should not be read alone, but instead should be read only in conjunction with the other information provided elsewhere in this document or incorporated by reference into this document.

Table of Contents

Appendix A

EXECUTION COPY

AGREEMENT AND PLAN OF MERGER

BY AND BETWEEN

FLUSHING FINANCIAL CORPORATION

AND

ATLANTIC LIBERTY FINANCIAL CORP.

DECEMBER 20, 2005

Table of Contents

TABLE OF CONTENTS

<u>ARTICLE I CERTAIN DEFINITIONS</u>	1
1.1 <u>Certain Definitions</u>	1
<u>ARTICLE II THE MERGER</u>	7
2.1 <u>Merger</u>	7
2.2 <u>Closing; Effective Time</u>	8
2.3 <u>Certificate of Incorporation and Bylaws</u>	8
2.4 <u>Directors and Officers of Surviving Corporation</u>	8
2.5 <u>Effects of the Merger</u>	8
2.6 <u>Tax Consequences</u>	8
2.7 <u>Possible Alternative Structures</u>	9
2.8 <u>Additional Actions</u>	9
<u>ARTICLE III CONVERSION OF SHARES</u>	9
3.1 <u>Conversion of ALFC Common Stock; Merger Consideration</u>	9
3.2 <u>Election Procedures</u>	10
3.3 <u>Procedures for Exchange of ALFC Common Stock</u>	13
3.4 <u>Treatment of ALFC Options</u>	14
3.5 <u>Bank Merger</u>	16
3.6 <u>Reservation of Shares</u>	16
<u>ARTICLE IV REPRESENTATIONS AND WARRANTIES OF ALFC</u>	16
4.1 <u>Standard</u>	16
4.2 <u>Organization</u>	16
4.3 <u>Capitalization</u>	17
4.4 <u>Authority; No Violation</u>	18
4.5 <u>Consents</u>	18
4.6 <u>Financial Statements</u>	19
4.7 <u>Taxes</u>	19
4.8 <u>No Material Adverse Effect</u>	21
4.9 <u>Material Contracts; Leases; Defaults</u>	21
4.10 <u>Ownership of Property; Insurance Coverage</u>	22
4.11 <u>Legal Proceedings</u>	23
4.12 <u>Compliance With Applicable Law</u>	23
4.13 <u>Employee Benefit Plans</u>	24
4.14 <u>Brokers, Finders and Financial Advisors</u>	26
4.15 <u>Environmental Matters</u>	26
4.16 <u>Loan Portfolio</u>	27
4.17 <u>Securities Documents</u>	28
4.18 <u>Related Party Transactions</u>	28
4.19 <u>Deposits</u>	29
4.20 <u>Antitakeover Provisions Inapplicable; Required Vote</u>	29
4.21 <u>Registration Obligations</u>	29
4.22 <u>Risk Management Instruments</u>	29

Table of Contents

4.23	<u>Fairness Opinion</u>	29
4.24	<u>Intellectual Property</u>	30
4.25	<u>ALFC Information</u>	30
<u>ARTICLE V REPRESENTATIONS AND WARRANTIES OF FFC</u>		30
5.1	<u>Standard</u>	30
5.2	<u>Organization</u>	31
5.3	<u>Capitalization</u>	31
5.4	<u>Authority; No Violation</u>	32
5.5	<u>Consents</u>	32
5.6	<u>Financial Statements</u>	33
5.7	<u>No Material Adverse Effect</u>	33
5.8	<u>Legal Proceedings</u>	33
5.9	<u>Compliance With Applicable Law</u>	33
5.10	<u>Securities Documents</u>	34
5.11	<u>Brokers, Finders and Financial Advisors</u>	34
5.12	<u>FFC Information</u>	34
5.13	<u>FFC Common Stock</u>	35
5.14	<u>Deposits</u>	35
5.15	<u>Risk Management Instruments</u>	35
5.16	<u>Material Contracts</u>	35
5.17	<u>Employee Benefit Plans</u>	35
5.18	<u>Environmental Matters</u>	36
5.19	<u>Loan Portfolio</u>	36
5.20	<u>Taxes</u>	37
<u>ARTICLE VI COVENANTS OF ALFC</u>		38
6.1	<u>Conduct of Business</u>	38
6.2	<u>Current Information</u>	42
6.3	<u>Access to Properties and Records</u>	43
6.4	<u>Financial and Other Statements</u>	43
6.5	<u>Maintenance of Insurance</u>	43
6.6	<u>Disclosure Supplements</u>	44
6.7	<u>Consents and Approvals of Third Parties</u>	44
6.8	<u>All Reasonable Efforts</u>	44
6.9	<u>Failure to Fulfill Conditions</u>	44
6.10	<u>No Solicitation</u>	44
6.11	<u>Employee Benefits</u>	45
6.12	<u>Reserves and Merger-Related Costs</u>	46
<u>ARTICLE VII COVENANTS OF FFC</u>		46
7.1	<u>Conduct of Business</u>	46
7.2	<u>Current Information and Consultation</u>	46
7.3	<u>Disclosure Supplements</u>	47
7.4	<u>Consents and Approvals of Third Parties</u>	47
7.5	<u>All Reasonable Efforts</u>	47
7.6	<u>Failure to Fulfill Conditions</u>	47

Table of Contents

7.7	<u>Employee Benefits: Advisory Board</u>	47
7.8	<u>Directors and Officers Indemnification and Insurance</u>	49
7.9	<u>Stock Listing</u>	50
7.10	<u>Stock and Cash Reserve</u>	50
7.11	<u>Section 16(b) Exemption</u>	50
<u>ARTICLE VIII REGULATORY AND OTHER MATTERS</u>		51
8.1	<u>Meetings of Stockholders</u>	51
8.2	<u>Proxy Statement-Prospectus; Merger Registration Statement</u>	51
8.3	<u>Regulatory Approvals</u>	52
8.4	<u>Affiliates</u>	52
<u>ARTICLE IX CLOSING CONDITIONS</u>		53
9.1	<u>Conditions to Each Party's Obligations under this Agreement</u>	53
9.2	<u>Conditions to the Obligations of FFC under this Agreement</u>	54
9.3	<u>Conditions to the Obligations of ALFC under this Agreement</u>	54
<u>ARTICLE X THE CLOSING</u>		55
10.1	<u>Time and Place</u>	55
10.2	<u>Deliveries at the Pre-Closing and the Closing</u>	55
<u>ARTICLE XI TERMINATION, AMENDMENT AND WAIVER</u>		55
11.1	<u>Termination</u>	55
11.2	<u>Effect of Termination</u>	59
11.3	<u>Amendment, Extension and Waiver</u>	60
<u>ARTICLE XII MISCELLANEOUS</u>		61
12.1	<u>Confidentiality</u>	61
12.2	<u>Public Announcements</u>	61
12.3	<u>Survival</u>	61
12.4	<u>Notices</u>	61
12.5	<u>Parties in Interest</u>	62
12.6	<u>Complete Agreement</u>	62
12.7	<u>Counterparts</u>	62
12.8	<u>Severability</u>	62
12.9	<u>Governing Law</u>	63
12.10	<u>Interpretation</u>	63
12.11	<u>Specific Performance</u>	63
Exhibit A Form of Plan of Bank Merger		
Exhibit B Form of Voting Agreement		
Exhibit C Affiliates Agreement		

Table of Contents

EXECUTION COPY

AGREEMENT AND PLAN OF MERGER

This AGREEMENT AND PLAN OF MERGER (this Agreement) is dated as of December 20, 2005, by and between Flushing Financial Corporation, a Delaware corporation (FFC), and Atlantic Liberty Financial Corp., a Delaware corporation (ALFC).

WHEREAS, the Board of Directors of each of FFC and ALFC has (i) determined that this Agreement and the business combination and related transactions contemplated hereby are in the best interests of their respective companies and stockholders, (ii) has determined that this Agreement and the transactions contemplated hereby are consistent with and in furtherance of their respective business strategies, and (iii) has approved this Agreement at meetings of each of such Boards of Directors; and

WHEREAS, in accordance with the terms of this Agreement, ALFC will merge with and into FFC (the Merger) and immediately thereafter Atlantic Liberty Savings, F.A., a wholly owned subsidiary of ALFC, will be merged with and into Flushing Savings Bank, FSB a wholly owned subsidiary of FFC (the Bank Merger); and

WHEREAS, as a condition to the willingness of FFC to enter into this Agreement, each of the directors and executive officers of ALFC have entered into a Voting Agreement, substantially in the form of Exhibit B hereto, dated as of the date hereof, with FFC (the Voting Agreement), pursuant to which each such director or executive officer has agreed among other things, to vote all shares of common stock of ALFC owned by such person in favor of the approval of this Agreement and the transactions contemplated hereby, upon the terms and subject to the conditions set forth in such Voting Agreement; and

WHEREAS, the parties intend the Merger to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the Code); and

WHEREAS, the parties desire to make certain representations, warranties and agreements in connection with the business transactions described in this Agreement and to prescribe certain conditions thereto.

NOW, THEREFORE in consideration of the mutual covenants, representations, warranties and agreements herein contained and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

CERTAIN DEFINITIONS

1.1 Certain Definitions.

As used in this Agreement the following terms have the following meanings (unless the context otherwise requires, references to Articles and Sections refer to Articles and Sections of this Agreement).

Affiliate means any Person who directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such Person and, without limiting the generality of the foregoing, includes any executive officer or director of such Person and any Affiliate of such executive officer or director.

Table of Contents

Agreement means this agreement, and any amendment hereto.

ALFC shall mean Atlantic Liberty Financial Corp., a Delaware corporation, with its principal offices located at 186 Montague Street, Brooklyn, New York 11201.

ALFC Common Stock shall mean the common stock, par value \$0.10 per share, of ALFC.

ALFC Disclosure Schedule shall mean a written disclosure schedule delivered by ALFC to FFC specifically referring to the appropriate section of this Agreement.

ALFC ESOP shall mean the Atlantic Liberty Savings, F.A. Employee Stock Ownership Plan.

ALFC Financial Statements shall mean (i) the audited consolidated statements of financial condition (including related notes and schedules, if any) of ALFC as of March 31, 2005 and 2004 and the consolidated statements of income, changes in stockholders' equity and cash flows (including related notes and schedules, if any) of ALFC for each of the two years ended March 31, 2005 and 2004, as set forth in ALFC's annual report for the year ended March 31, 2005 and (ii) the unaudited interim consolidated financial statements of ALFC as of the end of each calendar quarter following March 31, 2005 and for the periods then ended, as filed by ALFC in its Securities Documents.

ALFC Group means any combined, unitary, consolidated or other affiliated group within the meaning of Section 1504 of the Code or otherwise, of which ALFC or any ALFC Subsidiary is or has been a member for Tax purposes.

ALFC Stock Benefit Plan shall mean the ALFC 2003 Incentive Stock Benefit Plan, and any and all amendments thereto.

ALFC Option shall mean an option to purchase shares of ALFC Common Stock granted pursuant to the ALFC Stock Benefit Plan and outstanding as of the date hereof, as set forth in ALFC Disclosure Schedule 4.3.1.

ALFC Stockholders Meeting shall have the meaning set forth in Section 8.1.1.

ALFC Subsidiary means any corporation, 50% or more of the capital stock of which is owned, either directly or indirectly, by ALFC or Atlantic Liberty Savings, F.A., except any corporation the stock of which is held in the ordinary course of the lending activities of Atlantic Liberty Savings, F.A.

Atlantic Liberty Savings, F.A. shall mean Atlantic Liberty Savings, F.A., a federally chartered savings association, with its principal offices located at 186 Montague Street, Brooklyn, New York 11201, which is a wholly owned subsidiary of ALFC.

Bank Merger shall mean the merger of Atlantic Liberty Savings, F.A. with and into Flushing Savings Bank, FSB, with Flushing Savings Bank, FSB as the surviving institution, which merger shall occur immediately following the Merger.

Bank Regulator shall mean any Federal or state banking regulator, including but not limited to the OTS and the FDIC, which regulates Flushing Savings Bank, FSB or Atlantic Liberty Savings, F.A., or any of their respective holding companies or subsidiaries, as the case may be.

Cash Consideration shall have the meaning set forth in Section 3.1.3.

Table of Contents

Cash Election shall have the meaning set forth in Section 3.2.2.

Cash Election Shares shall have the meaning set forth in Section 3.2.1.

Cash/Stock Consideration shall have the meaning set forth in Section 3.1.3.

Certificate shall mean a certificate evidencing shares of ALFC Common Stock.

COBRA shall mean the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

Code shall mean the Internal Revenue Code of 1986, as amended.

Confidentiality Agreements shall mean the confidentiality agreements referred to in Section 12.1 of this Agreement.

DGCL shall mean the Delaware General Corporation Law.

Dissenting Shares shall have the meaning set forth in Section 3.1.4.

Dissenting Stockholder shall have the meaning set forth in Section 3.1.4.

Effective Time shall mean the date and time specified pursuant to Section 2.2 hereof as the effective time of the Merger.

Election Deadline shall have the meaning set forth in Section 3.2.3.

Election Form shall have the meaning set forth in Section 3.2.2.

Election Form Record Date shall have the meaning set forth in Section 3.2.2.

Environmental Laws means any applicable Federal, state or local law, statute, ordinance, rule, regulation, code, license, permit, authorization, approval, consent, order, judgment, decree, injunction or agreement with any governmental entity relating to (1) the protection, preservation or restoration of the environment (including, without limitation, air, water vapor, surface water, groundwater, drinking water supply, surface soil, subsurface soil, plant and animal life or any other natural resource), and/or (2) the exposure to, or the use, storage, recycling, treatment, generation, transportation, processing, handling, labeling, production, release or disposal of Materials of Environmental Concern. The term Environmental Law includes without limitation (a) the Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 U.S.C. §9601, et seq; the Resource Conservation and Recovery Act, as amended, 42 U.S.C. §6901, et seq; the Clean Air Act, as amended, 42 U.S.C. §7401, et seq; the Federal Water Pollution Control Act, as amended, 33 U.S.C. §1251, et seq; the Toxic Substances Control Act, as amended, 15 U.S.C. §2601, et seq; the Emergency Planning and Community Right to Know Act, 42 U.S.C. §11001, et seq; the Safe Drinking Water Act, 42 U.S.C. §300f, et seq; and all comparable state and local laws, and (b) any common law (including without limitation common law that may impose strict liability) that may impose liability or obligations for injuries or damages due to the presence of or exposure to any Materials of Environmental Concern.

ERISA shall mean the Employee Retirement Income Security Act of 1974, as amended.

Exchange Act shall mean the Securities Exchange Act of 1934, as amended.

Table of Contents

Exchange Agent shall mean EquiServe Trust Company NA, or such other bank or trust company or other agent designated by FFC, and reasonably acceptable to ALFC, which shall act as agent for FFC in connection with the exchange procedures for exchanging Certificates for the Merger Consideration.

Exchange Fund shall have the meaning set forth in Section 3.3.1.

Exchange Ratio shall have the meaning set forth in Section 3.1.3.

FDIC shall mean the Federal Deposit Insurance Corporation or any successor thereto.

FFC shall mean Flushing Financial Corporation, a Delaware corporation, with its principal executive offices located at 1979 Marcus Avenue, Suite E140, Lake Success, New York 11042.

FFC Common Stock shall mean the common stock, par value \$0.01 per share, of FFC.

FFC Disclosure Schedule shall mean a written disclosure schedule delivered by FFC to ALFC specifically referring to the appropriate section of this Agreement.

FFC Financial Statements shall mean the (i) the audited consolidated statements of financial condition (including related notes and schedules) of FFC as of December 31, 2004 and 2003 and the consolidated statements of income, changes in stockholders' equity and cash flows (including related notes and schedules, if any) of FFC for each of the three years ended December 31, 2004, 2003 and 2002, as set forth in FFC's annual report for the year ended December 31, 2004, and (ii) the unaudited interim consolidated financial statements of FFC as of the end of each calendar quarter following December 31, 2004 and for the periods then ended, as filed by FFC in its Securities Documents.

FFC Group means any combined, unitary, consolidated or other affiliated group within the meaning of Section 1504 of the Code or otherwise, of which FFC or any FFC Subsidiary is or has been a member for Tax purposes.

FFC Rights Agreement shall mean the Rights Agreement, dated as of September 17, 1996, between FFC and State Street Bank and Trust Company, as rights agent, relating to FFC's Series A Junior Participating Preferred Stock.

FFC Stock Benefit Plans shall mean the FFC 2005 Omnibus Incentive Plan, the FFC 1996 Stock Option Incentive Plan and the FFC 1996 Restricted Stock Incentive Plan.

FFC Stock Purchase Rights shall mean the Rights to purchase units of FFC's Series A Junior Participating Preferred Stock in accordance with the terms of the FFC Rights Agreement.

FFC Subsidiary means any substantial corporation or limited liability company, 50% or more of the capital stock of which is owned, either directly or indirectly, by FFC or Flushing Savings Bank, FSB, except any corporation the stock of which is held in the ordinary course of the lending activities of Flushing Savings Bank, FSB.

FHLB shall mean the Federal Home Loan Bank of New York.

Flushing Savings Bank, FSB shall mean Flushing Savings Bank, FSB, a federally chartered savings bank, with its principal offices located at 1979 Marcus Avenue, Suite E140, Lake Success, New York 11042, which is a wholly owned subsidiary of FFC.

Table of Contents

GAAP shall mean accounting principles generally accepted in the United States of America.

Governmental Entity shall mean any Federal or state court, administrative agency or commission or other governmental authority or instrumentality.

HOLA shall mean the Home Owners Loan Act, as amended.

Intellectual Property shall have the meaning set forth in section 4.24.

IRS shall mean the United States Internal Revenue Service.

Knowledge as used with respect to a Person (including references to such Person being aware of a particular matter) means those facts that are known by the executive officers and directors of such Person, and includes any facts, matters or circumstances set forth in any written notice from any Bank Regulator or any other material written notice received by an executive officer or director of that Person.

Mailing Date shall have the meaning set forth in Section 3.2.2.

Material Adverse Effect shall mean, with respect to FFC or ALFC, respectively, any effect that (i) is material and adverse to the financial condition, results of operations or business of FFC and the FFC Subsidiaries taken as a whole, or ALFC and the ALFC Subsidiaries taken as a whole, respectively, or (ii) does or would materially impair the ability of either ALFC, on the one hand, or FFC, on the other hand, to perform its obligations under this Agreement or otherwise materially threaten or materially impede the consummation of the transactions contemplated by this Agreement; provided that Material Adverse Effect shall not be deemed to include the impact of (a) changes in laws and regulations affecting banks or thrift institutions generally, or interpretations thereof by Courts or governmental agencies, (b) changes in GAAP or regulatory accounting principles generally applicable to financial institutions and their holding companies, (c) actions and omissions of a party hereto (or any of its Subsidiaries) taken with the prior written consent of the other party, (d) the announcement of this Agreement and the transactions contemplated hereby, and compliance with this Agreement on the business, financial condition or results of operations of the parties and their respective Subsidiaries, including the expenses incurred by the parties hereto in consummating the transactions contemplated by this Agreement (consistent with the information included in the Disclosure Schedules), and (e) any change in the value of the securities or loan portfolio of FFC or ALFC, respectively, whether held as available for sale or held to maturity, resulting from a change in interest rates generally.

Materials of Environmental Concern means pollutants, contaminants, wastes, toxic substances, petroleum and petroleum products, and any other materials regulated under Environmental Laws, including, but not limited to, radon, radioactive material, asbestos, asbestos-containing material, urea formaldehyde foam insulation, lead, polychlorinated biphenyl, flammables and explosives.

Merger shall mean the merger of ALFC with and into FFC pursuant to the terms hereof.

Merger Consideration shall mean the cash or FFC Common Stock, or combination thereof, in an aggregate per share amount to be paid by FFC for each share of ALFC Common Stock, as set forth in Section 3.1.

Merger Registration Statement shall mean the registration statement, together with all amendments, filed with the SEC under the Securities Act for the purpose of registering shares of FFC Common Stock to be offered to holders of ALFC Common Stock in connection with the Merger.

Table of Contents

Mixed Election shall have the meaning set forth in Section 3.2.2.

NASD shall mean the National Association of Securities Dealers, Inc.

NASDAQ shall mean the Nasdaq National Market.

Non-Election shall have the meaning set forth in Section 3.2.2.

Non-Election Shares shall have the meaning set forth in Section 3.2.1.

OTS shall mean the Office of Thrift Supervision or any successor thereto.

PBGC shall mean the Pension Benefit Guaranty Corporation or any successor thereto.

Pension Plan shall have the meaning set forth in Section 4.13.2.

Person shall mean any individual, corporation, partnership, joint venture, association, trust or group (as that term is defined under the Exchange Act).

Pre-Effective Time Tax Period means any taxable period (or the allocable portion of a Straddle Period) ending on or before the close of business on the date the Effective Time occurs.

Proxy Statement-Prospectus shall have the meaning set forth in Section 8.2.1.

Regulatory Agreement shall have the meaning set forth in Section 4.12.3.

Regulatory Approvals means the approval of any Bank Regulator that is necessary in connection with the consummation of the Merger, the Bank Merger and the related transactions contemplated by this Agreement.

Representative shall have the meaning set forth in Section 3.2.2.

Rights shall mean warrants, options, rights, convertible securities, stock appreciation rights and other arrangements or commitments which obligate an entity to issue or dispose of any of its capital stock or other ownership interests or which provide for compensation based on the equity appreciation of its capital stock.

SBA shall mean the Small Business Administration or any successor thereto.

SEC shall mean the Securities and Exchange Commission or any successor thereto.

Securities Act shall mean the Securities Act of 1933, as amended.

Securities Documents shall mean all reports, offering circulars, proxy statements, registration statements and all similar documents filed pursuant to the Securities Laws.

Securities Laws shall mean the Securities Act; the Exchange Act; the Investment Company Act of 1940, as amended; the Investment Advisers Act of 1940, as amended; the Trust Indenture Act of 1939, as amended, and the rules and regulations of the SEC promulgated thereunder.

Shortfall Number shall have the meaning set forth in Section 3.2.5.

Table of Contents

Significant Subsidiary shall have the meaning set forth in Rule 1-02 of Regulation S-X of the SEC.

Stock Consideration shall have the meaning set forth in Section 3.1.3.

Stock Conversion Number shall have the meaning set forth in Section 3.2.1.

Stock Election shall have the meaning set forth in Section 3.2.2.

Stock Election Number shall have the meaning set forth in Section 3.2.1.

Stock Election Shares shall have the meaning set forth in Section 3.2.1.

Straddle Period means any taxable period that includes (but does not end on) the date of the Effective Time.

Surviving Corporation shall have the meaning set forth in Section 2.1.

Tax means any and all (a) Federal, state, local or foreign tax, fee or other like assessment or charge of any kind, including, without limitation, any net income, alternative or add-on minimum tax, gross income, gross receipts, sales, use, ad valorem, value-added, transfer, franchise, profits, license, withholding on amounts paid to or by the taxpayer, payroll, employment, excise, severance, stamp, capital stock, occupation, property, environmental or windfall tax, premium, customs duty or other tax, together with any interest, penalty additions to tax; (b) liability for the payment of Tax as the result of membership in the ALFC Group and (c) transferee or secondary liability in respect of any Tax (whether imposed by law or contractual arrangement).

Tax Return means any return (including estimated returns), declaration, report, claim for refund, or information return or statement relating to Taxes, including any such document prepared on an affiliated, consolidated, combined or unitary group basis and any schedule or attachment thereto.

Taxing Authority means any governmental or regulatory authority, body or instrumentality exercising any authority to impose, regulate or administer the imposition of Taxes.

Termination Date shall mean July 15, 2006.

Treasury Stock shall have the meaning set forth in Section 3.1.2.

Other terms used herein are defined in the preamble and elsewhere in this Agreement.

ARTICLE II

THE MERGER

2.1 Merger.

Subject to the terms and conditions of this Agreement, at the Effective Time: (a) ALFC shall merge with and into FFC, with FFC as the resulting or surviving corporation (the *Surviving Corporation*); and (b) the separate existence of ALFC shall cease and all of the rights, privileges, powers,

Table of Contents

franchises, properties, assets, liabilities and obligations of ALFC shall be vested in and assumed by FFC. As part of the Merger, each share of ALFC Common Stock will be converted into the right to receive the Merger Consideration pursuant to the terms of Article III hereof. Immediately after the Merger, Atlantic Liberty Savings, F.A. shall merge with and into Flushing Savings Bank, FSB, with Flushing Savings Bank, FSB as the resulting institution.

2.2 Closing; Effective Time.

Subject to the satisfaction or waiver of all conditions to closing contained in Article IX hereof, the Closing shall occur no later than five business days following the latest to occur of (i) the receipt of all required Regulatory Approvals, and the expiration of any applicable waiting periods, (ii) the approval of the Merger by the stockholders of ALFC, or (iii) at such other date or time upon which FFC and ALFC mutually agree (the Closing). The Merger shall be effected by the filing of a certificate of merger with the Delaware Office of the Secretary of State on the day of the Closing (the Closing Date), in accordance with the DGCL. The Effective Time means the date and time upon which the certificate of merger is filed with the Delaware Office of the Secretary of State, or as otherwise stated in the certificate of merger, in accordance with the DGCL.

2.3 Certificate of Incorporation and Bylaws.

The Certificate of Incorporation and Bylaws of FFC as in effect immediately prior to the Effective Time shall be the Certificate of Incorporation and Bylaws of the Surviving Corporation, until thereafter amended as provided therein and by applicable law.

2.4 Directors and Officers of Surviving Corporation.

The directors of FFC immediately prior to the Effective Time shall be the initial directors of the Surviving Corporation, each to hold office in accordance with the Certificate of Incorporation and Bylaws of the Surviving Corporation. Until changed in accordance with the Certificate of Incorporation and Bylaws of the Surviving Corporation, the officers of FFC immediately prior to the Effective Time shall be the initial officers of Surviving Corporation, in each case until their respective successors are duly elected or appointed and qualified.

2.5 Effects of the Merger.

At and after the Effective Time, the Merger shall have the effects as set forth in the DGCL.

2.6 Tax Consequences.

It is intended that the Merger shall constitute a reorganization within the meaning of Section 368(a) of the Code, and that this Agreement shall constitute a plan of reorganization as that term is used in Sections 354 and 361 of the Code. From and after the date of this Agreement and until the Closing, each party hereto shall use its reasonable best efforts to cause the Merger to qualify, and will not knowingly take any action, cause any action to be taken, fail to take any action or cause any action to fail to be taken which action or failure to act could prevent the Merger from qualifying as a reorganization under Section 368(a) of the Code. Following the Closing, neither FFC, ALFC nor any of their Affiliates shall knowingly take any action, cause any action to be taken, fail to take any action or cause any action to fail to be taken, which action or failure to act could cause the Merger to fail to qualify as a reorganization under Section 368(a) of the Code. FFC and ALFC each hereby agrees to deliver certificates substantially in compliance with IRS published advance ruling guidelines, with customary

Table of Contents

exceptions and modifications thereto, to enable counsel to deliver the legal opinions contemplated by Section 9.1.6, which certificates shall be effective as of the date of such opinions.

2.7 Possible Alternative Structures.

Notwithstanding anything to the contrary contained in this Agreement and subject to the satisfaction of the conditions set forth in Article IX, prior to the Effective Time FFC shall be entitled to revise the structure of the Merger described in Section 2.1 hereof, provided that (i) FFC shall have received an opinion of counsel to FFC that there are no adverse Federal or state income tax consequences to ALFC stockholders as a result of the modification; (ii) the consideration to be paid to the holders of ALFC Common Stock under this Agreement is not thereby changed in kind or value or reduced in amount; and (iii) such modification will not delay materially, or jeopardize receipt of any required regulatory approvals or other consents and approvals relating to the consummation of the Merger or otherwise cause any condition to closing not to be capable of being fulfilled. The parties hereto agree to appropriately amend this Agreement and any related documents in order to reflect any such revised structure.

2.8 Additional Actions.

If, at any time after the Effective Time, FFC shall consider or be advised that any further deeds, assignments or assurances in law or any other acts are necessary or desirable to (i) vest, perfect or confirm, of record or otherwise, in FFC its right, title or interest in, to or under any of the rights, properties or assets of ALFC or Atlantic Liberty Savings, F.A., or (ii) otherwise carry out the purposes of this Agreement, ALFC and its officers and directors shall be deemed to have granted to FFC an irrevocable power of attorney to execute and deliver all such deeds, assignments or assurances in law or take any other acts as are necessary or desirable to (a) vest, perfect or confirm, of record or otherwise, in FFC its right, title or interest in, to or under any of the rights, properties or assets of ALFC or Atlantic Liberty Savings, F.A. or (b) otherwise carry out the purposes of this Agreement, and the officers and directors of FFC are authorized in the name of ALFC or Atlantic Liberty Savings, F.A. or otherwise to take any and all such action.

ARTICLE III

CONVERSION OF SHARES

3.1 Conversion of ALFC Common Stock; Merger Consideration.

At the Effective Time, by virtue of the Merger and without any action on the part of FFC, ALFC or the holders of any of the shares of ALFC Common Stock, the Merger shall be effected in accordance with the following terms:

3.1.1 Each share of FFC Common Stock that is issued and outstanding immediately prior to the Effective Time shall remain issued and outstanding following the Effective Time and shall be unchanged by the Merger.

3.1.2 All shares of ALFC Common Stock held in the treasury of ALFC and each share of ALFC Common Stock owned by FFC or any direct or indirect wholly owned subsidiary of FFC or of ALFC immediately prior to the Effective Time (other than shares held in a fiduciary capacity or in connection with debts previously contracted) (Treasury Stock) shall, at the Effective Time, cease to exist, and the certificates for such shares shall be canceled as promptly as practicable thereafter, and no payment or distribution shall be made in consideration therefor.

Table of Contents

3.1.3 Each share of ALFC Common Stock issued and outstanding immediately prior to the Effective Time (other than Treasury Stock and Dissenting Shares) shall become and be converted into, as provided in and subject to the limitations set forth in this Agreement, the right to receive at the election of the holder thereof as provided in Section 3.2 either (i) \$24.00 in cash (the Cash Consideration); (ii) 1.4300 shares (the Exchange Ratio) of FFC Common Stock (the Stock Consideration); or (iii) a combination of the Cash Consideration and the Stock Consideration, as provided in Section 3.2 (the Cash/Stock Consideration). The Cash Consideration and the Stock Consideration are sometimes referred to herein collectively as the Merger Consideration.

3.1.4 Each outstanding share of ALFC Common Stock the holder of which has perfected his right to dissent under the DGCL and has not effectively withdrawn or lost such right as of the Effective Time (the Dissenting Shares) shall not be converted into or represent a right to receive the Merger Consideration hereunder, and the holder thereof shall be entitled only to such rights as are granted by the DGCL. ALFC shall give FFC prompt notice upon receipt by ALFC of any such demands for payment of the fair value of such shares of ALFC Common Stock and of withdrawals of such notice and any other instruments provided pursuant to applicable law (any stockholder duly making such demand being hereinafter called a Dissenting Stockholder), and FFC shall have the right to participate in all negotiations and proceedings with respect to any such demands. ALFC shall not, except with the prior written consent of FFC, voluntarily make any payment with respect to, or settle or offer to settle, any such demand for payment, or waive any failure to timely deliver a written demand for appraisal or the taking of any other action by such Dissenting Stockholder as may be necessary to perfect appraisal rights under the DGCL. Any payments made in respect of Dissenting Shares shall be made by the Surviving Company.

3.1.5 If any Dissenting Stockholder shall effectively withdraw or lose (through failure to perfect or otherwise) his right to such payment at or prior to the Effective Time, such holder's shares of ALFC Common Stock shall be converted into a right to receive the Merger Consideration in accordance with the applicable provisions of this Agreement. If such holder shall effectively withdraw or lose (through failure to perfect or otherwise) his right to such payment after the Effective Time (or the Election Deadline, as defined below), each share of ALFC Common Stock of such holder shall be treated as a Non-Election Share.

3.1.6 After the Effective Time, shares of ALFC Common Stock shall no longer be outstanding and shall automatically be canceled and shall cease to exist, and shall thereafter by operation of this section be the right to receive the Merger Consideration.

3.1.7 In the event FFC changes (or establishes a record date for changing) the number of, or provides for the exchange of, shares of FFC Common Stock issued and outstanding prior to the Effective Time as a result of a stock split, stock dividend, recapitalization, reclassification, or similar transaction with respect to the outstanding FFC Common Stock and the record date therefor shall be prior to the Effective Time, the Exchange Ratio shall be proportionately and appropriately adjusted; *provided, that* no such adjustment shall be made with regard to FFC Common Stock if FFC issues additional shares of FFC Common Stock and receives fair market value consideration for such shares.

3.2 Election Procedures.

3.2.1 Holders of ALFC Common Stock may elect to receive shares of FFC Common Stock or cash (in either case without interest) in exchange for their shares of ALFC Common Stock in accordance with the following procedures, provided that, in the aggregate, and subject to the provisions of Section 3.2.6, 65% of the total number of shares of ALFC Common Stock issued and outstanding at the Effective Time, including any Dissenting Shares but excluding any Treasury Stock (the Stock Conversion Number), shall be converted into the Stock Consideration and the remaining outstanding

Table of Contents

shares of ALFC Common Stock shall be converted into the Cash Consideration. Shares of ALFC Common Stock as to which a Cash Election (including, pursuant to a Mixed Election) has been made are referred to herein as Cash Election Shares. Shares of ALFC Common Stock as to which a Stock Election has been made (including, pursuant to a Mixed Election) are referred to as Stock Election Shares. Shares of ALFC Common Stock as to which no election has been made (or as to which an Election Form is not returned properly completed) are referred to herein as Non-Election Shares. The aggregate number of shares of ALFC Common Stock with respect to which a Stock Election has been made is referred to herein as the Stock Election Number. Any Dissenting Shares shall be deemed to be Cash Election Shares, and the holders thereof shall in no event receive consideration comprised of FFC Common Stock with respect to such shares.

3.2.2 An election form and other appropriate and customary transmittal materials (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon proper delivery of such Certificates to the Exchange Agent), in such form as ALFC and FFC shall mutually agree (Election Form), shall be mailed 40 days prior to the anticipated Effective Time or on such earlier date as FFC and ALFC shall mutually agree (the Mailing Date) to each holder of record of ALFC Common Stock as of five business days prior to the Mailing Date (the Election Form Record Date). Each Election Form shall permit such holder, subject to the allocation and election procedures set forth in this Section 3.2, (i) to elect to receive the Cash Consideration for all of the shares of ALFC Common Stock held by such holder (a Cash Election), in accordance with Section 3.1.3, (ii) to elect to receive the Stock Consideration for all of such shares (a Stock Election), in accordance with Section 3.1.3, (iii) to elect to receive the Stock Consideration for a part of such holder's ALFC Common Stock and the Cash Consideration for the remaining part of such holder's ALFC Common Stock (a Mixed Election), or (iv) to indicate that such record holder has no preference as to the receipt of cash or FFC Common Stock for such shares (a Non-Election). A holder of record of shares of ALFC Common Stock who holds such shares as nominee, trustee or in another representative capacity (a Representative) may submit multiple Election Forms, provided that each such Election Form covers all the shares of ALFC Common Stock held by such Representative for a particular beneficial owner. Any shares of ALFC Common Stock with respect to which the holder thereof shall not, as of the Election Deadline, have made an election by submission to the Exchange Agent of an effective, properly completed Election Form shall be deemed Non-Election Shares. All Dissenting Shares shall be deemed shares subject to a Cash Election, and with respect to such shares the holders thereof shall in no event receive consideration comprised of FFC Common Stock, subject to Section 3.1.5 hereof.

3.2.3 To be effective, a properly completed Election Form shall be submitted to the Exchange Agent on or before 5:00 p.m., New York City time, on the 20th day following the Mailing Date (or such other time and date as FFC and ALFC may mutually agree) (the Election Deadline); *provided, however*, that the Election Deadline may not occur on or after the Closing Date; and provided further that the Election Deadline may not occur prior to the seventh business day after receipt of all Regulatory Approvals (excluding the expiration of any applicable waiting periods). ALFC shall make available up to two separate Election Forms, or such additional Election Forms as FFC may permit, to all persons who become holders (or beneficial owners) of ALFC Common Stock between the Election Form Record Date and the close of business on the business day prior to the Election Deadline. ALFC shall provide to the Exchange Agent all information reasonably necessary for it to perform as specified herein. An election shall have been properly made only if the Exchange Agent shall have actually received a properly completed Election Form by the Election Deadline. An Election Form shall be deemed properly completed only if accompanied by one or more Certificates (or customary affidavits and indemnification regarding the loss or destruction of such Certificates or the guaranteed delivery of such Certificates) representing all shares of ALFC Common Stock covered by such Election Form, together with duly executed transmittal materials included with the Election Form. If an ALFC stockholder either (i) does not submit a properly completed Election Form in a timely fashion or (ii) revokes its Election Form prior

Table of Contents

to the Election Deadline, the shares of ALFC Common Stock held by such stockholder shall be designated as Non-Election Shares. Any Election Form may be revoked or changed by the person submitting such Election Form to the Exchange Agent by written notice to the Exchange Agent only if such notice of revocation or change is actually received by the Exchange Agent at or prior to the Election Deadline. FFC shall cause the Certificate or Certificates relating to any revoked Election Form to be promptly returned without charge to the person submitting the Election Form to the Exchange Agent. Subject to the terms of this Agreement and of the Election Form, the Exchange Agent shall have discretion to determine when any election, modification or revocation is received and whether any such election, modification or revocation has been properly made.

3.2.4 If the Stock Election Number exceeds the Stock Conversion Number, then all Cash Election Shares and all Non-Election Shares shall be converted into the right to receive the Cash Consideration, and, subject to Section 3.2.7 hereof, each holder of Stock Election Shares will be entitled to receive the Stock Consideration only with respect to that number of Stock Election Shares held by such holder equal to the product obtained by multiplying (x) the number of Stock Election Shares held by such holder by (y) a fraction, the numerator of which is the Stock Conversion Number and the denominator of which is the Stock Election Number, with the remaining number of such holder's Stock Election Shares being converted into the right to receive the Cash Consideration.

3.2.5 If the Stock Election Number is less than the Stock Conversion Number (the amount by which the Stock Conversion Number exceeds the Stock Election Number being referred to herein as the Shortfall Number), then all Stock Election Shares shall be converted into the right to receive the Stock Consideration and the Non-Election Shares and Cash Election Shares shall be treated in the following manner:

(A) if the Shortfall Number is less than or equal to the number of Non-Election Shares, then all Cash Election Shares shall be converted into the right to receive the Cash Consideration and, subject to Section 3.2.7 hereof, each holder of Non-Election Shares shall receive the Stock Consideration in respect of that number of Non-Election Shares held by such holder equal to the product obtained by multiplying (x) the number of Non-Election Shares held by such holder by (y) a fraction, the numerator of which is the Shortfall Number and the denominator of which is the total number of Non-Election Shares, with the remaining number of such holder's Non-Election Shares being converted into the right to receive the Cash Consideration; or

(B) if the Shortfall Number exceeds the number of Non-Election Shares, then all Non-Election Shares shall be converted into the right to receive the Stock Consideration, and, subject to Section 3.2.7 hereof, each holder of Cash Election Shares shall receive the Stock Consideration in respect of that number of Cash Election Shares held by such holder equal to the product obtained by multiplying (x) the number of Cash Election Shares held by such holder by (y) a fraction, the numerator of which is the amount by which (1) the Shortfall Number exceeds (2) the total number of Non-Election Shares and the denominator of which is the total number of Cash Election Shares, with the remaining number of such holder's Cash Election Shares being converted into the right to receive the Cash Consideration.

3.2.6 *No Fractional Shares.* Notwithstanding anything to the contrary contained herein, no certificates or scrip representing fractional shares of FFC Common Stock shall be issued upon the surrender for exchange of Certificates, no dividend or distribution with respect to FFC Common Stock shall be payable on or with respect to any fractional share interest, and such fractional share interests shall not entitle the owner thereof to vote or to any other rights of a stockholder of FFC. In lieu of the issuance of any such fractional share, FFC shall pay to each former holder of ALFC Common Stock who otherwise would be entitled to receive a fractional share of FFC Common Stock, an amount in cash, rounded to the nearest cent and without interest, equal to the product of (i) the fraction of a share to which

Table of Contents

such holder would otherwise have been entitled and (ii) the average of the daily closing sales prices of a share of FFC Common Stock as reported on the NASDAQ for the five consecutive trading days immediately preceding the Closing Date. For purposes of determining any fractional share interest, all shares of ALFC Common Stock owned by a ALFC stockholder shall be combined so as to calculate the maximum number of whole shares of FFC Common Stock issuable to such ALFC stockholder.

3.3 Procedures for Exchange of ALFC Common Stock.

3.3.1 FFC to Make Merger Consideration Available. After the Election Deadline and no later than the day prior to the Closing Date, FFC shall deposit, or shall cause to be deposited, with the Exchange Agent for the benefit of the holders of ALFC Common Stock, for exchange in accordance with this Section 3.3, certificates representing the shares of FFC Common Stock and an aggregate amount of cash sufficient to pay the aggregate amount of cash payable pursuant to this Article III (including the estimated amount of cash to be paid in lieu of fractional shares of ALFC Common Stock) (such cash and certificates for shares of FFC Common Stock, together with any dividends or distributions with respect thereto (without any interest thereon) being hereinafter referred to as the Exchange Fund).

3.3.2 Exchange of Certificates. FFC shall take all steps necessary to cause the Exchange Agent to mail, within five business days after the Effective Time, to each holder of a Certificate or Certificates who has not previously surrendered such Certificates with an Election Form, a form letter of transmittal (which shall be subject to the reasonable approval of ALFC) for return to the Exchange Agent and instructions for use in effecting the surrender of the Certificates in exchange for the Merger Consideration and cash in lieu of fractional shares into which the ALFC Common Stock represented by such Certificates shall have been converted as a result of the Merger, if any. The letter of transmittal shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Exchange Agent. Upon proper surrender of a Certificate for exchange and cancellation to the Exchange Agent, together with a properly completed letter of transmittal, duly executed, the holder of such Certificate shall be entitled to receive in exchange therefor the Merger Consideration to which such holder of ALFC Common Stock shall have become entitled pursuant to Section 3.1.3 hereof, and the Certificate so surrendered shall forthwith be cancelled. No interest will be paid or accrued on any Cash Consideration or any cash payable in lieu of fractional shares or any unpaid dividends and distributions, if any, payable to holders of Certificates.

3.3.3 Rights of Certificate Holders after the Effective Time. The holder of a Certificate that prior to the Merger represented issued and outstanding ALFC Common Stock shall have no rights, after the Effective Time, with respect to such ALFC Common Stock except to surrender the Certificate in exchange for the Merger Consideration as provided in this Agreement. No dividends or other distributions declared after the Effective Time with respect to FFC Common Stock shall be paid to the holder of any unsurrendered Certificate until the holder thereof shall surrender such Certificate in accordance with this Section 3.3. After the surrender of a Certificate in accordance with this Section 3.3, the record holder thereof shall be entitled to receive any such dividends or other distributions, without any interest thereon, which theretofore had become payable with respect to shares of FFC Common Stock represented by such Certificate.

3.3.4 Surrender by Persons Other than Record Holders. If the Person surrendering a Certificate and signing the accompanying letter of transmittal is not the record holder thereof, then it shall be a condition of the payment of the Merger Consideration that: (i) such Certificate is properly endorsed to such Person or is accompanied by appropriate stock powers, in either case signed exactly as the name of the record holder appears on such Certificate, and is otherwise in proper form for transfer, or is accompanied by appropriate evidence of the authority of the Person surrendering such Certificate and signing the letter of transmittal to do so on behalf of the record holder; and (ii) the person requesting such

Table of Contents

exchange shall pay to the Exchange Agent in advance any transfer or other taxes required by reason of the payment to a Person other than the registered holder of the Certificate surrendered, or required for any other reason, or shall establish to the satisfaction of the Exchange Agent that such tax has been paid or is not payable.

3.3.5 *Closing of Transfer Books.* From and after the Effective Time, there shall be no transfers on the stock transfer books of ALFC of the ALFC Common Stock that was outstanding immediately prior to the Effective Time. If, after the Effective Time, Certificates representing such shares are presented for transfer to the Exchange Agent, they shall be exchanged for the Merger Consideration and canceled as provided in this Section 3.3.

3.3.6 *Return of Exchange Fund.* At any time following the six month period after the Effective Time, FFC shall be entitled to require the Exchange Agent to deliver to it any portions of the Exchange Fund which had been made available to the Exchange Agent and not disbursed to holders of Certificates (including, without limitation, all interest and other income received by the Exchange Agent in respect of all funds made available to it), and thereafter such holders shall be entitled to look to FFC (subject to abandoned property, escheat and other similar laws) with respect to any Merger Consideration that may be payable upon due surrender of the Certificates held by them. Notwithstanding the foregoing, neither FFC nor the Exchange Agent shall be liable to any holder of a Certificate for any Merger Consideration delivered in respect of such Certificate to a public official pursuant to any abandoned property, escheat or other similar law.

3.3.7 *Lost, Stolen or Destroyed Certificates.* In the event any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such Certificate to be lost, stolen or destroyed and, if required by FFC, the posting by such person of a bond in such amount as FFC may reasonably direct as indemnity against any claim that may be made against it with respect to such Certificate, the Exchange Agent will issue in exchange for such lost, stolen or destroyed Certificate the Merger Consideration deliverable in respect thereof.

3.3.8 *Withholding.* FFC or the Exchange Agent will be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement or the transactions contemplated hereby to any holder of ALFC Common Stock such amounts as FFC (or any Affiliate thereof) or the Exchange Agent are required to deduct and withhold with respect to the making of such payment under the Code, or any applicable provision of U.S. federal, state, local or non-U.S. tax law. To the extent that such amounts are properly withheld by FFC or the Exchange Agent, such withheld amounts will be treated for all purposes of this Agreement as having been paid to the holder of the ALFC Common Stock in respect of whom such deduction and withholding were made by FFC or the Exchange Agent.

3.4 *Treatment of ALFC Options.*

3.4.1 At the Effective Time, each option to purchase a share of ALFC Common Stock that has been granted pursuant to the ALFC Stock Benefit Plan (the ALFC Option Plan) and that is outstanding and unexercised at the Effective Time (whether or not such option is otherwise vested or exercisable) (each, an Outstanding ALFC Option) shall be treated as follows:

(i) *Option Cashout.* To the extent that the option holder does not elect to convert the options pursuant to Section 3.4.1(ii), such options shall be cancelled and shall cease to be exercisable. In consideration for such cancellation, FFC shall, with respect to each Outstanding ALFC Option, pay to the holder thereof an amount equal to the excess (if any) of (a) the Cash Consideration over (b) the price at which the holder may acquire a share of ALFC Common Stock upon exercise of such

Table of Contents

Outstanding ALFC Option (the Option Cashout Payment). FFC shall make such payment as soon as practicable following the Effective Time or, if later in the case of any holder of an Outstanding ALFC Option, the date on which such holder delivers to FFC his written acceptance of an Option Cashout Payment as full and complete consideration for the cancellation of each Outstanding ALFC Option held by him. ALFC shall take such action as is necessary or appropriate under the terms of ALFC's Option Plan to convert each Outstanding ALFC Option, as of the Effective Time, into the right to receive an Option Cashout Payment upon the terms and conditions set forth herein. Payment hereunder shall be subject to withholding for applicable federal, state and local taxes; or

(ii) *Option Conversion.* Each option holder may, by written notice to FFC received by FFC not less than at least 10 business days prior to the Effective Time, elect to have all or a portion of such holder's outstanding ALFC Options converted into options (FFC Options) to purchase shares of FFC Common Stock. Any such election shall identify the Outstanding ALFC Options to be converted into FFC Options and shall become irrevocable upon receipt by FFC of the notice of election. The Outstanding ALFC Options identified in each such election shall be converted automatically into options to purchase shares of FFC Common Stock in an amount and at an exercise price determined as provided below, and each ALFC Option shall otherwise remain subject to the ALFC Option Plan and the agreements evidencing grants thereunder, and any other agreements between ALFC and an optionee regarding ALFC Options. The number of shares of FFC Common Stock (rounded down to the nearest whole share) to be subject to the new option shall be equal to the product of (i) the number of shares of ALFC Common Stock subject to the Outstanding ALFC Options being converted, and (ii) the Exchange Ratio. The exercise price per share of FFC Common Stock under the new option shall be equal to the quotient of the per share exercise price of the Outstanding ALFC Option being converted divided by the Exchange Ratio, rounded up to the next whole cent. The duration and other terms of the new option shall be the same as the original Outstanding ALFC Options being converted.

(iii) No payment shall be made pursuant to subsection (i) of this Section 3.4.1 with respect to any portion of an Outstanding ALFC Option that is converted into an FFC Option under subsection (ii) of this Section 3.4.1. ALFC shall use its reasonable best efforts to obtain the written acknowledgement of each holder of a then Outstanding ALFC Option with regard to the treatment of such Outstanding ALFC Option hereunder. FFC shall have the right to change the manner of payment under this Section 3.4.1 provided that the consideration to be paid to the holders of Outstanding ALFC Options pursuant thereto is not reduced in amount.

3.4.2 As of the Effective Time, FFC shall assume the obligations and succeed to the rights of ALFC under the ALFC Option Plan. ALFC and FFC agree that prior to the Effective Time the ALFC Option Plan shall be amended, to the extent possible without requiring stockholder approval of such amendments, (i) if and to