FLUSHING FINANCIAL CORP
Form 11-K
June 29, 2006

**FLUSHING SAVINGS BANK, FSB**

# 401(k) SAVINGS PLAN

**FINANCIAL STATEMENTS**

**As of December 31, 2005 and 2004 and for the year ended December 31, 2005 and Supplemental Schedules**

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## FLUSHING SAVINGS BANK, FSB 401(k) SAVINGS PLAN

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* Other schedules required by 29 CFR 2520.103-9 of the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 ( ERISA ) have been omitted because they are not applicable.

Report of Independent Registered Public Accounting Firm

Plan Administrator and Participants

Flushing Savings Bank, FSB 401(k) Savings

We have audited the accompanying statements of net assets available for plan benefits of the Flushing Savings Bank, FSB 401(k) Savings Plan (the Plan) as of December 31, 2005 and 2004, and the related statement of changes in net assets available for plan benefits for the year ended December 31, 2005. These financial statements and the supplemental schedules referred to below are the responsibility of the plan administrator. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of the Plan as of December 31, 2005 and 2004, and the changes in its net assets available for plan benefits for the year ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules listed in the accompanying index are presented for purposes of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ GRANT THORNTON LLP

Philadelphia, Pennsylvania

June 16, 2006

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## FLUSHING SAVINGS BANK, FSB 401(k) SAVINGS PLAN

**Statements of Net Assets Available for Plan Benefits**

| | As of December 31, 2005 | 2004 |
|---|---|---|
| Assets: | | |
| Investments at Fair Value | $6,828,014 | $7,956,008 |
| Participant Loans | 184,209 | 171,334 |
| | 7,012,223 | 8,127,342 |
| Receivables: | | |
| Employer Contributions Receivable | 26,102 | -- |
| Other Receivable | 15,929 | 1,260 |
| Total Receivables | 42,031 | 1,260 |
| Cash | 2,523 | 6,454 |
| Net Assets Available for Plan Benefits | $7,056,777 | $8,135,056 |

The accompanying notes are an integral part of these financial statements

## FLUSHING SAVINGS BANK, FSB 401(k) SAVINGS PLAN

**Statements of Changes in Net Assets Available for Plan Benefits**

| | | **For the year ended December 31, 2005** |
|---|---|---|
| Additions to net assets attributed to: | | |
| Investment income: | | |
| Dividends and interest | | $ 83,321 |
| Contributions: | | |
| Employer cash contributions, net of forfeitures | | 89,037 |
| Employer non cash contributions (FFIC Common Stock) | | 94,977 |
| Participants | | 478,931 |
| Total contributions | | 662,945 |
| Net depreciation in fair value of investments | | (559,039) |
| Total additions | | 187,227 |
| Deductions from net assets attributed to: | | |
| Certain deemed distributions of participant loans | | 32,944 |
| Administrative expenses | | 7,621 |
| Benefits paid to participants | | 1,224,941 |
| Total deductions | | 1,265,506 |
| Net decrease | | (1,078,279) |
| Net Assets Available for Plan Benefits | December 31, 2004 | 8,135,056 |
| Net Assets Available for Plan Benefits | December 31, 2005 | $7,056,777 |

The accompanying notes are an integral part of this financial statement

## FLUSHING SAVINGS BANK, FSB 401(k) SAVINGS PLAN

## Notes to Financial Statements

**1. Description of Plan:**

The following description of Flushing Savings Bank, FSB 401(k) Savings Plan (the Plan ) provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan s provisions.

**a. General:**

The Plan is a tax-deferred savings plan which began on September 1, 1987, and covers all salaried employees of Flushing Savings Bank, FSB (the Bank ) and participating affiliates who have completed one year of service and are twenty-one years of age or older. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ( ERISA ).

**b. Contributions:**

Participant contributions can be no less than 1% nor greater than 25% of their base compensation for each plan year. Participant contributions could not exceed $14,000 annually for the plan year ended December 31, 2005, adjusted as prescribed under the Internal Revenue Code. The Bank will match 50% of each participant s basic contributions up to a maximum of 3% of the participant s base compensation. Of the 50% match, one half of the match will be invested into the Flushing Financial Corporation Common Stock Fund. The remaining half of the match will be invested into corresponding participant directed investment accounts. Currently, contributions to the Plan are not subject to Federal, state, or local income taxes until withdrawn from the Plan. Participant forfeitures serve to reduce the contribution due from the Bank. Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans. Participants who have reached the age of 50 before the end of the Plan year are eligible to make catch-up contributions.

**c. Participant accounts:**

Each participant s account is credited with the participant s contributions; the Bank s matching contributions and related net earnings thereon. The plan assets are segregated into twelve investment accounts: RSGroup Trust Company Stable Value Fund, PIMCO Total Return Fund, RSGroup Trust Company Conservative Asset Allocation Fund, RSGroup Trust Company Moderate Asset Allocation Fund, RSGroup Trust Company Aggressive Asset Allocation Fund, T. Rowe Price Equity Income Fund, SSgA S&P 500 Index Fund, Alger LargeCap Growth Institutional Portfolio, RSI Retirement Trust International Equity Fund, Alger MidCap Growth Institutional Portfolio, Neuberger Berman Genesis Fund and Flushing Financial Corporation Common Stock Fund. The assets of the Flushing Financial Corporation Common Stock Fund are held by HSBC Bank USA. The other plan assets are held by the RSGroup Trust Company.

Certain assets are not allocated to the above investment accounts. Those unallocated amounts represent contributions pending allocation to the designated investment accounts. In accordance with the provisions of the Plan, net assets are to be valued from time to time, but not less often than monthly, and the increase or decrease in such value since the last valuation date is allocated among the participants accounts so as to preserve each participant s beneficial interest in the Plan.

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## FLUSHING SAVINGS BANK, FSB 401(k) SAVINGS PLAN

## Notes to Financial Statements, continued

**d. Vesting:**

Participants are immediately 100 percent vested in their salary deferral contributions plus earnings thereon. Vesting of employer contributions on behalf of each participant is based on continuous years of service. A participant is 100 percent vested after six years of credited service.

**e. Investment options:**

Upon enrollment in the Plan, a participant may direct employee contributions in one percent increments into the twelve investment accounts. Thereafter, a participant may direct investment changes in their accounts daily. However, participants are not permitted to redirect the Bank s matching contribution that is made to the Flushing Financial Corporation Common Stock Fund.

**f. Payment of benefits:**

Upon termination of service, a participant is entitled to receive a lump sum or, in certain circumstances, quarterly, semi-annual, or annual installments, equal to the value of his or her account to the extent such funds are vested. If a participant's employment with the Company is terminated for any other reason than death, disability or retirement and their account balance does not exceed $5,000, the Plan will automatically distribute a lump-sum payment to the participant. Effective March 28, 2005, the automatic distribution balance was reduced from $5,000 to $1,000.

**g. Voting rights:**

With respect to the Flushing Financial Corporation Common Stock Fund, each participant is entitled to exercise voting rights attributable to the shares allocated to his or her account and is notified by the Trustee prior to the time that such rights are to be exercised. With respect to shares of stock credited to participant accounts as to which the Trustee did not receive timely voting instructions and shares of stock not credited to participant s account, the Trustee shall vote all such shares of stock in the same proportion as were voted shares as to which participants provided timely instructions. For the other stock funds, the shares are voted at the discretion of the Plan Trustee.

**h. Loans to participants:**

Loans are made available to all participants on a uniform and nondiscriminatory basis. All loans must be adequately collateralized and amortized over a period not to exceed five years unless the loan is to purchase the principal residence of a participant, in which case, the term cannot exceed ten years. Loans must bear a reasonable rate of interest (currently prime rounded to the nearest one quarter of one percent). Loans are limited by the Internal Revenue Code Section 72(p) and may not exceed the lesser of (i) 50% of the net value of a participant s vested account balance or (ii) $50,000 reduced by the largest outstanding loan balance in the Plan during the preceding 12 months. At December 31, 2005, outstanding loans bore interest rates in the range of 4.0% to 8.5%.

**i. Forfeited accounts:**

At December 31, 2005, forfeited nonvested accounts totaled $592, which will be used to reduce future employer contributions. In 2005, employer contributions were reduced by $6,173 from forfeited nonvested accounts.

**Continued**

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## FLUSHING SAVINGS BANK, FSB 401(k) SAVINGS PLAN

## Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies:**

**a. Basis of presentation:**

The accompanying financial statements have been prepared using the accrual method of accounting.

**b. Investment Valuation and Income Recognition:**

The Plan s investments are stated at fair value, using market quotations where available. Shares of registered investment companies are valued at quoted market prices which represent the net asset value of shares held by the Plan at year-end. Loans receivable from participants are valued at outstanding balances, which approximate fair value.

The Plan presents interest and dividend income and net appreciation (depreciation) in the fair value of its investments in the statement of changes in net assets available for plan benefits. Net appreciation (depreciation) in the fair value of its funds and common stock consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments. Interest and dividends consist of interest payments received or accrued on interest bearing securities such as money market securities and dividend payments received or accrued on the ex-dividend date from individual securities such as common and preferred stock. Dividend and interest income on investments held by the funds are reinvested by each fund.

Purchases and sales of securities are recorded on a trade date basis.

**c. Expenses:**

The ordinary administrative expenses of the Plan, including compensation of the Trustee and other administrative expenses of the Trustee, are paid from the Plan unless paid by the Bank at its discretion. For the year ended December 31, 2005 the Bank elected to pay the expenses of the Plan's Trustees.

**d. Payment of benefits:**

Benefit payments to participants are recorded upon distribution.

**e. Estimates:**

The preparation of the Plan s financial statements in conformity with accounting principles generally accepted in the United States of America requires the Plan Administrator to make estimates and assumptions that affect the reported amounts of net assets available for plan benefits at the date of the financial statements, the changes in net assets available for plan benefits during the period, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results

could differ from those estimates.

**Continued**

## FLUSHING SAVINGS BANK, FSB 401(k) SAVINGS PLAN

## Notes to Financial Statements, continued

**f. Risks and uncertainties:**

The Plan currently invests in eleven mutual funds and one equity fund, which contains an HSBC Bank short-term investment fund. These investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities in which these funds may invest, and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect the amounts reported in the Statement of Net Assets Available for Plan Benefits and the Statement of Changes in Net Assets Available for Plan Benefits.

**3. Investments**

The following table presents investments that represent five percent or more of the Plan s net assets.

| | As of December 31, 2005 | 2004 |
|---|---|---|
| RSGroup Trust Company Stable Value Fund, 19,545.685 and 24,679.292 shares respectively. | 666,469 | 811,776 |
| T. Rowe Price Equity Income Fund, 33,751.408 and 32,508.675 shares, respectively. | 872,811 | 863,105 |
| SSgA S&P 500 Index Fund, 65,750.449 and 67,046.841 shares, respectively. | 1,351,172 | 1,338,925 |
| Neuberger Berman Genesis Fund, 14,977.337 and 12,673.179 shares, respectively. | 727,150 | 540,765 |
| Flushing Financial Corporation Common Stock, 171,476 and 194,557 shares, respectively. | 2,669,881* | 3,902,813* |

* Nonparticipant-directed

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**FLUSHING SAVINGS BANK, FSB 401(k) SAVINGS PLAN**

## Notes to Financial Statements, continued

During 2005, the Plan s investments (including gains and losses on investments bought and sold, as well as held during the year) depreciated in value by $559,039, as follows:

| | **For the year ended December 31, 2005** |
|---|---|
| Flushing Financial Corporation Common Stock Fund | $ (794,106) |
| Retirement System Group Inc. Common Stock | 8 |
| RSGroup Trust Company Conservative Asset Allocation Fund | 631 |
| RSGroup Trust Company Moderate Asset Allocation Fund | 294 |
| RSGroup Trust Company Aggressive Asset Allocation Fund | 883 |
| RSGroup Trust Company Stable Value Fund | 24,263 |
| Alger MidCap Growth Institutional Portfolio | 11,219 |
| Alger LargeCap Growth Institutional Portfolio | 974 |
| American Century International Growth Fund | 981 |
| Neuberger Berman Genesis Fund | 98,260 |
| RSI Retirement Trust International Equity Fund | 476 |
| T. Rowe Price Equity Income Fund | 31,944 |
| SSgA S&P 500 Index Fund | 61,503 |
| PIMCO Total Return Fund | 3,631 |
| Net depreciation | $ (559,039) |

**Continued**

## FLUSHING SAVINGS BANK, FSB 401(k) SAVINGS PLAN

## Notes to Financial Statements, continued

**4. Nonparticipant-Directed Investments**

Information about the net assets and the significant components of the changes in net assets relating to the nonparticipant-directed investments is as follows:

| | As of December 31, 2005 | 2004 |
|---|---|---|
| Flushing Financial Corporation common stock | $2,669,881 | $3,902,813 |
| HSBC Bank USA Collective Trust Short Term Investment Fund Directed | 138,537 | 236,808 |
| Flushing Financial Corporation Common Stock Fund | $2,808,418 | $4,139,621 |

| | For the year ended December 31, 2005 |
|---|---|
| Changes in Net Assets: | |
| Cash contributions | $ 123,793 |
| Non cash contributions (FFIC common stock) | 94,977 |
| Dividends and interest | 77,481 |
| Net depreciation | (794,106) |
| Benefits paid to participants | (822,506) |
| Net transfers to/from participant-directed investments | (10,842) |
| | $ (1,331,203) |

**5. Plan Termination:**

Although it has not expressed any intent to do so, the Bank specifically reserves the right, at any time, to terminate the Plan or to amend, in whole or in part, any or all of the provisions of the Plan, subject to the provisions of ERISA and approval of the Directors. In the event of termination or partial termination of the Plan or upon complete discontinuance of contributions under the Plan, the accounts of each affected participant shall become 100% vested and fully distributable, in accordance with the Internal Revenue Code and all income tax regulations promulgated thereunder.

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**FLUSHING SAVINGS BANK, FSB 401(k) SAVINGS PLAN**

## Notes to Financial Statements, continued

**6. Federal Tax Status:**

The Internal Revenue Service ("IRS") has determined and informed the Company by a signed letter dated March 24, 2006 that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code. Based on the opinions of the Plan s Trustee and outside legal counsel, amendments to the Plan subsequent to this date did not require the Plan to be resubmitted to the IRS.

**7. Related-Party Transactions**

Plan investments include shares of mutual funds managed by RSGroup Trust Company, which is also the Trustee of the Plan, and the common stock of Flushing Financial Corporation, the parent company of the Bank. Accordingly, these transactions qualify as party-in-interest transactions.

**FLUSHING SAVINGS BANK, FSB 401(k) SAVINGS PLAN**

**EIN 11-0758150**

**Schedule H, line 4i Schedule of Assets (Held at End of Year)**

***As of December 31, 2005***

| (a) | (b) Identity of issue, borrower, lessor or similar party | (c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value | (d) Cost** | (e) Current value |
|---|---|---|---|---|
| * | RSGroup Trust | Conservative Asset Allocation | $ 11,278 | $ 11,810 |
| * | RSGroup Trust | Moderate Asset Allocation | 4,045 | 4,162 |
| * | RSGroup Trust | Aggressive Asset Allocation | 9,364 | 9,890 |
| * | RSGroup Trust | Stable Value | 632,434 | 666,469 |
| * | RSI Retirement Trust | International Equity Fund | 11,675 | 12,106 |
| | Alger | MidCap Growth | 109,050 | 110,411 |
| | Alger | LargeCap Growth | 19,234 | 20,207 |
| | Neuberger Berman | Genesis Fund | 621,713 | 727,150 |
| | T. Rowe Price | Equity Income | 841,512 | 872,811 |
| | SSgA | S&P 500 Index | 1,242,115 | 1,351,172 |
| | PIMCO | Total Return | 236,315 | 233,408 |
| * | Flushing Financial Corp. | Common Stock*** | 1,362,625 | 2,669,881 |
| * | HSBC Bank USA | Common Collective Trust Short Term Investment Fund Directed*** | 138,537 | 138,537 |
| * | Participant Loans | Loans to participants**** | 184,209 | 184,209 |
| | | Total | $ 5,424,106 | $ 7,012,223 |

* Party in interest to the Plan.

** Represents the Plan s percentage of each fund s historical cost.

*** Flushing Financial Corporation Common Stock Fund consists of Flushing Financial Corporation Common Stock and HSBC Bank USA Common Collective Trust Short Term Investment Fund Directed.

**** Loans bear a rate of interest of prime rounded to the nearest one quarter of one percent.
Interest rate range of 4.0% to 8.5% for all outstanding loans to participants as of December 31, 2005

**FLUSHING SAVINGS BANK, FSB 401(k) SAVINGS PLAN**

**EIN 11-0758150**

**Schedule H, line 4j Schedule of Reportable Transactions**

***For the year ended December 31, 2005***

| (a) Identity of party involved | (b) Description of asset (include interest rate and maturity in case of loan) | (c) Purchase Price | (d) Selling Price | (e) Lease rental | (f) Expenses incurred with transaction | (g) Cost of asset | (h) Current value of asset on transaction date | (i) Net gain |
|---|---|---|---|---|---|---|---|---|
| HSBC Bank | Collective Trust Short Term Investment Fund Directed | $535,657 | $535,657 | $ - | $ - | $ - | $535,657 | $ - |

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## FLUSHING SAVINGS BANK, FSB 401(k) SAVINGS PLAN

**SIGNATURES**

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees for the Plan have duly caused this annual report to be signed by the undersigned hereunto duly authorized.

Flushing Savings Bank, FSB 401(k) Savings Plan,

Date: June 29, 2005

By: /s/ Anna M. Piacentini
Anna M. Piacentini
Plan Administrator

**FLUSHING SAVINGS BANK, FSB 401(k) SAVINGS PLAN**

**INDEX TO EXHIBITS**

**Exhibit**

23 Consent of Independent Registered Public Accounting Firm

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