

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

FORM 10-Q

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

For the quarterly period ended **June 30, 2014**

Commission file number **001-33013**

**FLUSHING FINANCIAL CORPORATION**  
(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of incorporation or organization)

**11-3209278**  
(I.R.S. Employer Identification No.)

**1979 Marcus Avenue, Suite E140, Lake Success, New York 11042**  
(Address of principal executive offices)

**(718) 961-5400**  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

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

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

The number of shares of the registrant's Common Stock outstanding as of July 31, 2014 was 30,194,640 .

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**PART I – FINANCIAL INFORMATION**

**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

**Consolidated Statements of Financial Condition**

(Unaudited)

**Item 1. Financial Statements**

	June 30, 2014	December 31, 2013
<i>(Dollars in thousands, except per share data)</i>		
<b>ASSETS</b>		
Cash and due from banks	\$ 36,982	\$ 33,485
Securities available for sale:		
Mortgage-backed securities (\$5,182 and \$7,119 at fair value pursuant to the fair value option at June 30, 2014 and December 31, 2013, respectively)	770,545	756,156
Other securities (\$33,718 and \$30,163 at fair value pursuant to the fair value option at June 30, 2014 and December 31, 2013 respectively)	288,137	261,634
Loans held for sale	-	425
Loans:		
Multi-family residential	1,784,111	1,712,039
Commercial real estate	510,224	512,552
One-to-four family — mixed-use property	581,207	595,751
One-to-four family — residential	192,895	193,726
Co-operative apartments	9,885	10,137
Construction	4,717	4,247
Small Business Administration	7,543	7,792
Taxi medallion	25,291	13,123
Commercial business and other	405,853	373,641
Net unamortized premiums and unearned loan fees	10,811	11,170
Allowance for loan losses	(29,235)	(31,776)
Net loans	3,503,302	3,402,402
Interest and dividends receivable	17,524	17,370
Bank premises and equipment, net	19,779	20,356
Federal Home Loan Bank of New York stock	51,407	46,025
Bank owned life insurance	111,137	109,606
Goodwill	16,127	16,127
Other assets	38,872	57,915
Total assets	\$ 4,853,812	\$ 4,721,501
<b>LIABILITIES</b>		
Due to depositors:		
Non-interest bearing	\$ 213,263	\$ 197,343
Interest-bearing:		
Certificate of deposit accounts	1,159,897	1,120,955
Savings accounts	254,665	265,003
Money market accounts	272,679	199,907
NOW accounts	1,297,480	1,416,774
Total interest-bearing deposits	2,984,721	3,002,639
Mortgagors' escrow deposits	40,987	32,798
Borrowed funds (\$29,388 and \$29,570 at fair value pursuant to the fair value option at June 30, 2014 and December 31, 2013, respectively)	966,202	856,822
Securities sold under agreements to repurchase	146,000	155,300
Other liabilities	42,132	44,067
Total liabilities	4,393,305	4,288,969
Commitments and contingencies (Notes 4 & 5)		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock (\$0.01 par value; 5,000,000 shares authorized; None issued)	-	-
Common stock (\$0.01 par value; 100,000,000 shares authorized; 31,530,595 shares issued at June 30, 2014 and December 31, 2013; 30,185,040 shares and 30,123,252 shares outstanding at June 30, 2014 and December 31, 2013, respectively)	315	315
Additional paid-in capital	205,322	201,902
Treasury stock, at average cost (1,345,555 shares and 1,407,343 shares at June 30, 2014 and December 31, 2013, respectively)	(22,048)	(22,053)
Retained earnings	276,269	263,743
Accumulated other comprehensive (loss) income, net of taxes	649	(11,375)
Total stockholders' equity	460,507	432,532
Total liabilities and stockholders' equity	\$ 4,853,812	\$ 4,721,501

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

**PART I – FINANCIAL INFORMATION**

**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

**Consolidated Statements of Income**

(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
<i>(Dollars in thousands, except per share data)</i>				
<b>Interest and dividend income</b>				
Interest and fees on loans	\$ 42,489	\$ 42,861	\$ 84,609	\$ 85,801
Interest and dividends on securities:				
Interest	6,867	7,174	13,742	14,128
Dividends	195	236	384	411
Other interest income	18	24	45	41
Total interest and dividend income	<u>49,569</u>	<u>50,295</u>	<u>98,780</u>	<u>100,381</u>
<b>Interest expense</b>				
Deposits	7,670	8,093	15,388	16,384
Other interest expense	5,070	4,906	10,076	12,555
Total interest expense	<u>12,740</u>	<u>12,999</u>	<u>25,464</u>	<u>28,939</u>
<b>Net interest income</b>	36,829	37,296	73,316	71,442
(Benefit) provision for loan losses	(1,092)	3,500	(2,211)	9,500
<b>Net interest income after provision for loan losses</b>	<u>37,921</u>	<u>33,796</u>	<u>75,527</u>	<u>61,942</u>
<b>Non-interest income (loss)</b>				
Other-than-temporary impairment ("OTTI") charge	-	(1,221)	-	(1,221)
Less: Non-credit portion of OTTI charge recorded in Other Comprehensive Income, before taxes	-	718	-	718
Net OTTI charge recognized in earnings	-	(503)	-	(503)
Banking services fee income	867	1,228	1,576	2,268
Net gain on sale of loans	-	152	-	143
Net gain from sale of securities	-	18	-	2,876
Net loss from fair value adjustments	(402)	(308)	(1,046)	(431)
Federal Home Loan Bank of New York stock dividends	430	401	981	815
Bank owned life insurance	755	841	1,531	1,666
Other income	336	370	654	713
Total non-interest income	<u>1,986</u>	<u>2,199</u>	<u>3,696</u>	<u>7,547</u>
<b>Non-interest expense</b>				
Salaries and employee benefits	11,944	10,961	24,522	23,194
Occupancy and equipment	1,919	1,856	3,954	3,716
Professional services	1,527	1,515	2,737	3,133
FDIC deposit insurance	673	786	1,370	1,777
Data processing	1,042	1,099	2,110	2,142
Depreciation and amortization	717	734	1,432	1,501
Other real estate owned/foreclosure expense	279	444	535	1,112
Other operating expenses	2,523	2,818	6,057	6,057
Total non-interest expense	<u>20,624</u>	<u>20,213</u>	<u>42,717</u>	<u>42,632</u>
<b>Income before income taxes</b>	<u>19,283</u>	<u>15,782</u>	<u>36,506</u>	<u>26,857</u>
<b>Provision for income taxes</b>				
Federal	5,513	4,663	10,271	8,124
State and local	2,085	1,492	4,254	2,350
Total taxes	<u>7,598</u>	<u>6,155</u>	<u>14,525</u>	<u>10,474</u>
<b>Net income</b>	<u>\$ 11,685</u>	<u>\$ 9,627</u>	<u>\$ 21,981</u>	<u>\$ 16,383</u>
Basic earnings per common share	\$ 0.39	\$ 0.32	\$ 0.73	\$ 0.54
Diluted earnings per common share	\$ 0.39	\$ 0.32	\$ 0.73	\$ 0.54
Dividends per common share	\$ 0.15	\$ 0.13	\$ 0.30	\$ 0.26

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES  
 Consolidated Statements of Comprehensive Income  
 (Unaudited)

<i>(Dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
<b>Comprehensive Income</b>				
Net income	\$ 11,685	\$ 9,627	\$ 21,981	\$ 16,383
Amortization of actuarial losses	98	174	161	348
Amortization of prior service credits	(7)	(6)	(10)	(12)
OTTI charges included in income	-	283	-	283
Unrealized gains (losses) on securities, net	6,513	(15,634)	11,873	(19,837)
Comprehensive income (loss)	\$ 18,289	\$ (5,556)	\$ 34,005	\$ (2,835)

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

**PART I – FINANCIAL INFORMATION**

**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
(Unaudited)

	For the six months ended June 30,	
	2014	2013
<i>(Dollars in thousands)</i>		
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Net income	\$ 21,981	\$ 16,383
Adjustments to reconcile net income to net cash provided by operating activities:		
(Benefit) provision for loan losses	(2,211)	9,500
Depreciation and amortization of bank premises and equipment	1,432	1,501
Net gain on sale of loans	-	(143)
Net gain on sale of securities	-	(2,876)
Amortization of premium, net of accretion of discount	3,582	3,750
Net loss from fair value adjustments	1,046	431
OTTI charge recognized in earnings	-	503
Income from bank owned life insurance	(1,531)	(1,666)
Stock-based compensation expense	3,135	2,400
Deferred compensation	(1,486)	(509)
Amortization of core deposit intangibles	-	234
Excess tax benefit from stock-based payment arrangements	(748)	(324)
Deferred income tax provision	2,745	148
Decrease in prepaid FDIC assessment	-	3,287
Increase in other liabilities	1,948	7,307
Decrease in other assets	1,489	572
Net cash provided by operating activities	<u>31,382</u>	<u>40,498</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Purchases of bank premises and equipment	(855)	(381)
Net purchase of Federal Home Loan Bank of New York shares	(5,382)	(5,083)
Purchases of securities available for sale	(70,871)	(303,694)
Proceeds from sales and calls of securities available for sale	1,871	106,914
Proceeds from maturities and prepayments of securities available for sale	47,535	75,567
Net originations of loans	(90,946)	(77,337)
Purchases of loans	(12,884)	(452)
Proceeds from sale of real estate owned	2,034	2,834
Proceeds from sale of delinquent loans	7,332	20,891
Net cash used in investing activities	<u>(122,166)</u>	<u>(180,741)</u>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>		
Net increase in non-interest bearing deposits	15,920	18,164
Net increase (decrease) in interest-bearing deposits	(18,405)	28,362
Net increase in mortgagors' escrow deposits	8,189	8,245
Net proceeds from short-term borrowed funds	109,000	38,000
Proceeds from long-term borrowings	-	149,837
Repayment of long-term borrowings	(9,300)	(79,911)
Purchases of treasury stock	(3,285)	(13,363)
Excess tax benefit from stock-based payment arrangements	748	324
Proceeds from issuance of common stock upon exercise of stock options	429	235
Cash dividends paid	(9,015)	(7,879)
Net cash provided by financing activities	<u>94,281</u>	<u>142,014</u>
Net increase in cash and cash equivalents	3,497	1,771
Cash and cash equivalents, beginning of period	33,485	40,425
Cash and cash equivalents, end of period	<u>\$ 36,982</u>	<u>\$ 42,196</u>
<b><u>SUPPLEMENTAL CASH FLOW DISCLOSURE</u></b>		
Interest paid	\$ 25,172	\$ 28,319
Income taxes paid	12,236	10,732
Taxes paid if excess tax benefits were not tax deductible	12,984	11,056
Non-cash activities:		
Loans transferred to real estate owned	655	2,758
Loans provided for the sale of real estate owned	308	2,583
Loans held for investment transferred to available for sale	-	7,525
Loans held for sale transferred to loans held for investment	-	2,214

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

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES  
Consolidated Statements of Changes in Stockholders' Equity  
(Unaudited)

	For the six months ended June 30,	
	2014	2013
<i>(Dollars in thousands, except per share data)</i>		
<b>Common Stock</b>		
Balance, beginning of period	\$ 315	\$ 315
No activity	-	-
Balance, end of period	<u>\$ 315</u>	<u>\$ 315</u>
<b>Additional Paid-In Capital</b>		
Balance, beginning of period	\$ 201,902	\$ 198,314
Award of common shares released from Employee Benefit Trust (129,694 and 137,346 common shares for the six months ended June 30, 2014 and 2013, respectively)	1,975	1,556
Shares issued upon vesting of restricted stock unit awards (2,500 and 120,014 common shares for the six months ended June 30, 2014 and 2013, respectively)	9	160
Issuance upon exercise of stock options (100,625 and 96,925 common shares for the six months ended June 30, 2014 and 2013, respectively)	296	116
Stock-based compensation activity, net	392	(192)
Stock-based income tax benefit	748	324
Balance, end of period	<u>\$ 205,322</u>	<u>\$ 200,278</u>
<b>Treasury Stock</b>		
Balance, beginning of period	\$ (22,053)	\$ (10,257)
Purchases of shares outstanding (108,120 and 806,092 common shares for the six months ended June 30, 2014, and 2013, respectively)	(2,143)	(12,609)
Shares issued upon vesting of restricted stock unit awards (188,480 and 176,456 common shares for the six months ended June 30, 2014 and 2013, respectively)	2,972	2,335
Issuance upon exercise of stock options (100,625 and 151,355 common shares for the six months ended June 30, 2014 and 2013, respectively)	1,608	2,056
Purchases of shares to fund options exercised (63,732 and 112,332 common shares for the six months ended June 30, 2014 and 2013, respectively)	(1,290)	(1,750)
Repurchase of shares to satisfy tax obligations (55,465 and 49,103 common shares for the six months ended June 30, 2014 and 2013, respectively)	(1,142)	(754)
Balance, end of period	<u>\$ (22,048)</u>	<u>\$ (20,979)</u>
<b>Retained Earnings</b>		
Balance, beginning of period	\$ 263,743	\$ 241,856
Net income	21,981	16,383
Cash dividends declared and paid on common shares (\$0.30 and \$0.26 per common share for the six months ended June 30, 2014 and 2013, respectively)	(9,015)	(7,879)
Issuance upon exercise of stock options (7,200 and 54,160 common shares for the six months ended June 30, 2014 and 2013, respectively)	(45)	(69)
Shares issued upon vesting of restricted stock unit awards (185,980 and 56,242 common shares for the six months ended June 30, 2014 and 2013, respectively)	(395)	(99)
Balance, end of period	<u>\$ 276,269</u>	<u>\$ 250,192</u>
<b>Accumulated Other Comprehensive Income (Loss)</b>		
Balance, beginning of period	\$ (11,375)	\$ 12,137
Change in net unrealized gains (losses) on securities available for sale, net of taxes of approximately (\$9,141) and \$14,140 for the six months ended June 30, 2014 and 2013, respectively	11,873	(18,218)
Amortization of actuarial losses, net of taxes of approximately (\$189) and (\$270) for the six months ended June 30, 2014 and 2013, respectively	161	348
Amortization of prior service credits, net of taxes of approximately \$13 and \$10 for the six months ended June 30, 2014 and 2013, respectively	(10)	(12)
OTTI charges included in income, net of taxes of approximately (\$220) for the six months ended June 30, 2013	-	283
Reclassification adjustment for gains included in net income, net of tax of approximately \$1,257 for the six months ended June 30, 2013	-	(1,619)
Balance, end of period	<u>\$ 649</u>	<u>\$ (7,081)</u>
<b>Total Stockholders' Equity</b>	<u>\$ 460,507</u>	<u>\$ 422,725</u>

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

## PART I – FINANCIAL INFORMATION

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

#### 1. Basis of Presentation

The primary business of Flushing Financial Corporation (the “Holding Company”), a Delaware corporation, is the operation of its wholly-owned subsidiary, Flushing Bank (the “Bank”).

The unaudited consolidated financial statements presented in this Quarterly Report on Form 10-Q (“Quarterly Report”) include the collective results of the Holding Company and its direct and indirect wholly-owned subsidiaries, including the Bank, Flushing Preferred Funding Corporation, Flushing Service Corporation, and FSB Properties Inc., which are collectively herein referred to as “we,” “us,” “our” and the “Company.”

The Holding Company also owns Flushing Financial Capital Trust II, Flushing Financial Capital Trust III, and Flushing Financial Capital Trust IV (the “Trusts”), which are special purpose business trusts. The Trusts are not included in the Company’s consolidated financial statements as the Company would not absorb the losses of the Trusts if any losses were to occur.

The accompanying unaudited consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and general practices within the banking industry. The information furnished in these interim statements reflects all adjustments which are, in the opinion of management, necessary for a fair statement of the results for such presented periods of the Company. Such adjustments are of a normal recurring nature, unless otherwise disclosed in this Quarterly Report. All inter-company balances and transactions have been eliminated in consolidation. The results of operations in the interim statements are not necessarily indicative of the results that may be expected for the full year.

The accompanying unaudited consolidated financial statements have been prepared in conformity with the instructions to Quarterly Report on Form 10-Q and Article 10, Rule 10-01 of Regulation S-X for interim financial statements. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The unaudited consolidated interim financial information should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2013.

#### 2. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and expenses during the reporting period. Estimates that are particularly susceptible to change in the near term are used in connection with the determination of the allowance for loan losses (“ALLL”), the evaluation of goodwill for impairment, the evaluation of the need for a valuation allowance of the Company’s deferred tax assets, the evaluation of other-than-temporary impairment (“OTTI”) on securities and the valuation of certain financial instruments. The current economic environment has increased the degree of uncertainty inherent in these material estimates. Actual results could differ from these estimates.

#### 3. Earnings Per Share

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



**PART I – FINANCIAL INFORMATION**

**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Unaudited)

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

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
	<i>(In thousands, except per share data)</i>			
Net income, as reported	\$ 11,685	\$ 9,627	\$ 21,981	\$ 16,383
Divided by:				
Weighted average common shares outstanding	30,059	30,213	30,022	30,330
Weighted average common stock equivalents	31	22	34	27
Total weighted average common shares outstanding and common stock equivalents	30,090	30,235	30,056	30,357
Basic earnings per common share	\$ 0.39	\$ 0.32	\$ 0.73	\$ 0.54
Diluted earnings per common share (1)	\$ 0.39	\$ 0.32	\$ 0.73	\$ 0.54
Dividend payout ratio	38.5%	40.6%	41.1%	48.1%

- (1) For the three and six months ended June 30, 2014, there were no options which were considered anti-dilutive. For the three and six months ended June 30, 2013, options to purchase 542,340 shares at an average exercise price of \$17.66 were not included in the computation of diluted earnings per common share as they were anti-dilutive.

**4. Debt and Equity Securities**

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

The Company did not hold any trading securities or securities held-to-maturity during the three and six months ended June 30, 2014 and 2013. Securities available for sale are recorded at fair value.

The following table summarizes the Company's portfolio of securities available for sale at June 30, 2014:

	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
	<i>(In thousands)</i>			
Corporate	\$ 110,686	\$ 112,577	\$ 2,286	\$ 395
Municipals	133,892	135,262	1,977	607
Mutual funds	26,937	26,937	-	-
Other	16,343	13,361	-	2,982
Total other securities	287,858	288,137	4,263	3,984
REMIC and CMO	512,453	514,622	8,616	6,447
GNMA	33,588	35,642	2,186	132
FNMA	206,666	207,819	4,072	2,919
FHLMC	12,236	12,462	267	41
Total mortgage-backed securities	764,943	770,545	15,141	9,539
Total securities available for sale	\$ 1,052,801	\$ 1,058,682	\$ 19,404	\$ 13,523

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

Mortgage-backed securities shown in the table above include three private issue collateralized mortgage obligations (“CMOs”) that are collateralized by commercial real estate mortgages with amortized cost and market values totaling \$12.5 million and \$12.6 million, respectively, at June 30, 2014.

The following table shows the Company’s available for sale securities with gross unrealized losses and their fair value aggregated by category and length of time the individual securities have been in a continuous unrealized loss position at June 30, 2014:

	Total		Less than 12 months		12 months or more	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	<i>(In thousands)</i>					
Corporate	\$ 49,605	\$ 395	\$ 9,809	\$ 191	\$ 39,796	\$ 204
Municipals	44,859	607	17,307	49	27,552	558
Other	6,580	2,982	-	-	6,580	2,982
Total other securities	101,044	3,984	27,116	240	73,928	3,744
REMIC and CMO	236,976	6,447	89,203	1,022	147,773	5,425
GNMA	8,989	132	-	-	8,989	132
FNMA	96,273	2,919	-	-	96,273	2,919
FHLMC	7,192	41	-	-	7,192	41
Total mortgage-backed securities	349,430	9,539	89,203	1,022	260,227	8,517
Total securities available for sale	\$ 450,474	\$ 13,523	\$ 116,319	\$ 1,262	\$ 334,155	\$ 12,261

OTTI losses on impaired securities must be fully recognized in earnings if an investor has the intent to sell the debt security or if it is more likely than not that the investor will be required to sell the debt security before recovery of its amortized cost. However, even if an investor does not expect to sell a debt security, the investor must evaluate the expected cash flows to be received and determine if a credit loss has occurred. In the event that a credit loss has occurred, only the amount of impairment associated with the credit loss is recognized in earnings in the Consolidated Statements of Income. Amounts relating to factors other than credit losses are recorded in accumulated other comprehensive income (“AOCI”) within Stockholders’ Equity.

The Company reviewed each investment that had an unrealized loss at June 30, 2014. An unrealized loss exists when the current fair value of an investment is less than its amortized cost basis. Unrealized losses on available for sale securities, that are deemed to be temporary, are recorded in AOCI, net of tax. Unrealized losses that are considered to be other-than-temporary are split between credit related and noncredit related impairments, with the credit related impairment being recorded as a charge against earnings and the noncredit related impairment being recorded in AOCI, net of tax.

The Company evaluates its pooled trust preferred securities, included in the table above in the row labeled “Other”, using an impairment model through an independent third party, which includes evaluating the financial condition of each counterparty. For single issuer trust preferred securities, the Company evaluates the issuer’s financial condition. When an OTTI is identified, the portion of the impairment that is credit related, for trust preferred securities, is determined by management by using a discounted cash flow model from an independent third party, with the difference between the present value of the projected cash flows and the amortized cost basis of the security recorded as a credit related loss against earnings.

**Corporate:**  
The unrealized losses in Corporate securities at June 30, 2014 consist of losses on six Corporate securities. The unrealized losses were caused by movements in interest rates. It is not anticipated that these securities would be settled at a price that is less than the amortized cost of the Company’s investment. Each of these securities is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell these securities and it is more likely than not the Company will not be required to sell the securities before recovery of the securities’ amortized cost basis. This conclusion is based upon considering the Company’s cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the securities. Therefore, the Company did not consider these investments to be other-than-temporarily impaired at June 30, 2014.

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**Municipal Securities:**

The unrealized losses in Municipal securities at June 30, 2014, consist of losses on 13 municipal securities. The unrealized losses were caused by movements in interest rates. It is not anticipated that these securities would be settled at a price that is less than the amortized cost of the Company's investment. Each of these securities is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell these securities and it is more likely than not the Company will not be required to sell the securities before recovery of the securities amortized cost basis. This conclusion is based upon considering the Company's cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the securities. Therefore, the Company did not consider these investments to be other-than-temporarily impaired at June 30, 2014.

**Other Securities:**

The unrealized losses in Other Securities at June 30, 2014, consist of losses on one single issuer trust preferred security and two pooled trust preferred securities. The unrealized losses on these securities were caused by market interest volatility, a significant widening of credit spreads across markets for these securities and illiquidity and uncertainty in the financial markets. These securities are currently rated below investment grade. The pooled trust preferred securities do not have collateral that is subordinate to the classes the Company owns. The Company's management evaluates the pooled trust preferred securities using an impairment model, through an independent third party, that is applied to debt securities. In estimating OTTI losses, management considers: (1) the length of time and the extent to which the fair value has been less than amortized cost; (2) the current interest rate environment; (3) the financial condition and near-term prospects of the issuer, if applicable; and (4) the intent and ability of the Company to retain its investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value. Additionally, management reviews the financial condition of each individual issuer within the pooled trust preferred securities. All of the issuers of the underlying collateral of the pooled trust preferred securities we reviewed are banks.

For each bank, our review included the following performance items of the banks:

- Ratio of tangible equity to assets
- Tier 1 Risk Weighted Capital
- Net interest margin
- Efficiency ratio for most recent two quarters
- Return on average assets for most recent two quarters
- Texas Ratio (ratio of non-performing assets plus assets past due over 90 days divided by tangible equity plus the reserve for loan losses)
- Credit ratings (where applicable)
- Capital issuances within the past year (where applicable)
- Ability to complete Federal Deposit Insurance Corporation ("FDIC") assisted acquisitions (where applicable)

Based on the review of the above factors, we concluded that:

All of the performing issuers in our pools are well capitalized banks, and do not appear likely to be closed by their regulators.

All of the performing issuers in our pools will continue as a going concern and will not default on their securities.

In order to estimate potential future defaults and deferrals, we segregated the performing underlying issuers by their Texas Ratio. We then reviewed performing issuers with Texas Ratios in excess of 50%. The Texas Ratio is a key indicator of the health of the institution and the likelihood of failure. This ratio compares the problem assets of the institution to the institution's available capital and reserves to absorb losses that are likely to occur in these assets. No issuer in our pooled trust preferred securities had a Texas Ratio in excess of 50%. We concluded that issuers with a Texas Ratio below 50% are considered healthy, and there was minimal risk of default. We assigned a zero percent default rate to these issuers. Our analysis also assumed that issuers currently deferring would default with no recovery, and issuers that have defaulted will have no recovery.

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We had an independent third party prepare a discounted cash flow analysis for each of these pooled trust preferred securities based on the assumptions discussed above. Other significant assumptions were: (1) one issuer totaling \$13.3 million will prepay in the third quarter of 2014; (2) two issuers totaling \$21.5 million will prepay in the second quarter of 2015; (3) senior classes will not call the debt on their portions; and (4) use of the forward London Interbank Offered Rate (“LIBOR”) curve. The cash flows were discounted at the effective rate for each security.

The Company also owns a single issue security that is carried under the fair value option, where the unrealized losses are included in the Consolidated Statements of Income – Net gain (loss) from fair value adjustments.

It is not anticipated at this time that the one single issuer trust preferred security and the two pooled trust preferred securities would be settled at a price that is less than the amortized cost of the Company’s investment. Each of these securities is performing according to its terms and, in the opinion of management and based on the review performed at June 30, 2014, will continue to perform according to its terms. The Company does not have the intent to sell these securities and it is more likely than not the Company will not be required to sell the securities before recovery of the securities’ amortized cost basis. This conclusion is based upon considering the Company’s cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the securities. Therefore, the Company did not consider the one single issuer trust preferred security and the two pooled trust preferred securities to be other-than-temporarily impaired at June 30, 2014.

At June 30, 2014, the Company held four trust preferred issues which had a current credit rating of at least one rating below investment grade. One of those issues are carried under the fair value option and therefore, changes in fair value are included in the Consolidated Statement of Income – Net gain (loss) from fair value adjustments.

The following table details the remaining three trust preferred issues that were evaluated to determine if they were other-than-temporarily impaired at June 30, 2014. The class the Company owns in pooled trust preferred securities does not have any excess subordination.

Issuer Type	Class	Performing Banks	Amortized Cost	Fair Value	Cumulative Credit Related OTTI	Deferrals/Defaults		Current Lowest Rating
						Actual as a Percentage of Original Security	Expected Percentage of Performing Collateral	
Single issuer	n/a	1	\$ 300	\$ 290	\$ -	None	None	BB-
Pooled issuer	B1	16	5,617	3,040	2,383	22.5%	0.0%	C
Pooled issuer	C1	15	3,645	3,250	1,355	21.3%	0.0%	C
Total			\$ 9,562	\$ 6,580	\$ 3,738			

*(Dollars in thousands)*

**REMIC and CMO:**

The unrealized losses in Real Estate Mortgage Investment Conduit (“REMIC”) and CMO securities at June 30, 2014 consist of 10 issues from the Federal Home Loan Mortgage Corporation (“FHLMC”), 16 issues from the Federal National Mortgage Association (“FNMA”) and four issues from Government National Mortgage Association (“GNMA”).

The unrealized losses on the REMIC and CMO securities issued by FHLMC, FNMA and GNMA were caused by movements in interest rates. It is not anticipated that these securities would be settled at a price that is less than the amortized cost of the Company’s investment. Each of these securities is performing according to its terms, and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell these securities and it is more likely than not the Company will not be required to sell the securities before recovery of the securities’ amortized cost basis. This conclusion is based upon considering the Company’s cash and working capital requirements, and contractual and regulatory obligations, none of which the Company believes would cause the sale of the securities. Therefore, the Company did not consider these investments to be other-than-temporarily impaired at June 30, 2014.

**GNMA:**

The unrealized losses in GNMA securities at June 30, 2014 consist of losses on one security. The unrealized losses were caused by movements in interest rates. It is not anticipated that this security would be settled at a price that is less than the amortized cost of the Company’s investment. This security is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell this security and it is more likely than not the Company will not be required to sell the security before recovery of the security’s amortized cost basis. This conclusion is based upon considering the Company’s cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the security. Therefore, the Company did not consider this security to be other-than-temporarily impaired at June 30, 2014.

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**FNMA:**

The unrealized losses in FNMA securities at June 30, 2014 consist of losses on 13 securities. The unrealized losses were caused by movements in interest rates. It is not anticipated that these securities would be settled at a price that is less than the amortized cost of the Company's investment. Each of these securities is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell these securities and it is more likely than not the Company will not be required to sell the securities before recovery of the securities' amortized cost basis. This conclusion is based upon considering the Company's cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes will cause the sale of the securities. Therefore, the Company did not consider these investments to be other-than-temporarily impaired at June 30, 2014.

**FHMLC:**

The unrealized losses in FHMLC securities at June 30, 2014 consist of losses on two securities. The unrealized losses were caused by movements in interest rates. It is not anticipated that these securities would be settled at a price that is less than the amortized cost of the Company's investment. Each of these securities are performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell these securities and it is more likely than not that the Company will not be required to sell the securities before recovery of the securities' amortized cost basis. This conclusion is based upon considering the Company's cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the securities. Therefore, the Company did not consider these securities' to be other-than-temporarily impaired at June 30, 2014.

The following table details gross unrealized losses recorded in AOCI and the ending credit loss amount on two pooled trust preferred securities, as of June 30, 2014, for which the Company has recorded a credit related OTTI charge in the Consolidated Statements of Income:

<i>(in thousands)</i>	Amortized Cost	Fair Value	Gross Unrealized Losses Recorded In AOCI	Ending Credit Loss Amount
Trust preferred securities <sup>(1)</sup>	\$ 9,262	\$ 6,290	\$ 2,972	\$ 3,738
Total	<u>\$ 9,262</u>	<u>\$ 6,290</u>	<u>\$ 2,972</u>	<u>\$ 3,738</u>

(1) The Company has recorded OTTI charges in the Consolidated Statements of Income on two pooled trust preferred securities for which a portion of the unrealized losses are currently recorded in AOCI.

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

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
	<i>(In thousands)</i>			
Beginning balance	\$ 3,738	\$ 6,009	\$ 3,738	\$ 6,178
Recognition of actual losses	-	(319)	-	(488)
OTTI charges due to credit loss recorded in earnings	-	503	-	503
Securities sold during the period	-	-	-	-
Securities where there is an intent to sell or requirement to sell	-	-	-	-
Ending balance	\$ 3,738	\$ 6,193	\$ 3,738	\$ 6,193

The following table details the amortized cost and estimated fair value of the Company's securities classified as available for sale at June 30, 2014, by contractual maturity. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized	
	Cost	Fair Value
	<i>(In thousands)</i>	
Due in one year or less	\$ 44,295	\$ 44,424
Due after one year through five years	41,225	43,266
Due after five years through ten years	63,537	63,354
Due after ten years	138,801	137,093
Total other securities	287,858	288,137
Mortgage-backed securities	764,943	770,545
Total securities available for sale	\$ 1,052,801	\$ 1,058,682

The following table represents the gross gains and gross losses realized from the sale of securities available for sale for the periods indicated:

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
	<i>(In thousands)</i>			
Gross gains from the sale of securities	\$ -	\$ 18	\$ -	\$ 3,217
Gross losses from the sale of securities	-	-	-	(341)
Net gains from the sale of securities	\$ -	\$ 18	\$ -	\$ 2,876

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The following table summarizes the Company's portfolio of securities available for sale at December 31, 2013:

	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
	<i>(In thousands)</i>			
Corporate	\$ 100,362	\$ 101,711	\$ 2,316	\$ 967
Municipals	127,967	123,423	93	4,637
Mutual funds	21,565	21,565	-	-
Other	18,160	14,935	-	3,225
Total other securities	268,054	261,634	2,409	8,829
REMIC and CMO	494,984	489,670	6,516	11,830
GNMA	38,974	40,874	2,325	425
FNMA	217,615	212,322	2,233	7,526
FHLMC	13,297	13,290	226	233
Total mortgage-backed securities	764,870	756,156	11,300	20,014
Total securities available for sale	\$ 1,032,924	\$ 1,017,790	\$ 13,709	\$ 28,843

Mortgage-backed securities shown in the table above include three private issue collateralized mortgage obligations ("CMO") that are collateralized by commercial real estate mortgages with an amortized cost and market value of \$13.9 million at December 31, 2013.

The following table shows the Company's available for sale securities with gross unrealized losses and their fair value, aggregated by category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2013.

	Total		Less than 12 months		12 months or more	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	<i>(In thousands)</i>					
Corporate	\$ 39,033	\$ 967	\$ 39,033	\$ 967	\$ -	\$ -
Municipals	100,875	4,637	95,958	4,187	4,917	450
Other	6,337	3,225	-	-	6,337	3,225
Total other securities	146,245	8,829	134,991	5,154	11,254	3,675
REMIC and CMO	298,165	11,830	279,743	10,650	18,422	1,180
GNMA	9,213	425	9,213	425	-	-
FNMA	139,999	7,526	131,248	6,654	8,751	872
FHLMC	7,478	233	7,478	233	-	-
Total mortgage-backed securities	454,855	20,014	427,682	17,962	27,173	2,052
Total securities available for sale	\$ 601,100	\$ 28,843	\$ 562,673	\$ 23,116	\$ 38,427	\$ 5,727

**5. Loans**

Loans are reported at their principal outstanding balance net of any unearned income, charge-offs, deferred loan fees and costs on originated loans and unamortized premiums or discounts on purchased loans. Interest on loans is recognized on the accrual basis. The accrual of income on loans is generally discontinued when certain factors, such as contractual delinquency of 90 days or more, indicate reasonable doubt as to the timely collectability of such income. Uncollected interest previously recognized on non-accrual loans is reversed from interest income at the time the loan is placed on non-accrual status. A non-accrual loan can be returned to accrual status when contractual delinquency returns to less than 90 days delinquent. Subsequent cash payments received on non-accrual loans that do not bring the loan to less than 90 days delinquent are recorded on a cash basis. Subsequent cash payments can also be applied first as a reduction of principal until all principal is recovered and then subsequently to interest, if in management's opinion, it is evident that recovery of all principal due is unlikely to occur. Loan fees and certain loan origination costs are deferred. Net loan origination costs and premiums or discounts on loans purchased are amortized into interest income over the contractual life of the loans using the level-yield method. Prepayment penalties received on loans which pay in full prior to their scheduled maturity are included in interest income in the period they are collected.

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The Company maintains an allowance for loan losses at an amount, which, in management's judgment, is adequate to absorb probable estimated losses inherent in the loan portfolio. Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectability of loans. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revisions as more information becomes available. The allowance is established through a provision (benefit) for loan losses based on management's evaluation of the risk inherent in the various components of the loan portfolio and other factors, including historical loan loss experience (which is updated quarterly), current economic conditions, delinquency and non-accrual trends, classified loan levels, risk in the portfolio and volumes and trends in loan types, recent trends in charge-offs, changes in underwriting standards, experience, ability and depth of the Company's lenders, collection policies and experience, internal loan review function and other external factors. Additionally, the Company segregated our loans into two portfolios based on year of origination. One portfolio was reviewed for loans originated after December 31, 2009 and a second portfolio for loans originated prior to January 1, 2010. Our decision to segregate the portfolio based upon origination dates was based on changes made in our underwriting standards during 2009. By the end of 2009, all loans were being underwritten based on revised and tightened underwriting standards. Loans originated prior to 2010 have a higher delinquency rate and loss history. Each of the years in the portfolio for loans originated prior to 2010 have a similar delinquency rate. The determination of the amount of the allowance for loan losses includes estimates that are susceptible to significant changes due to changes in appraisal values of collateral, national and local economic conditions and other factors. We review our loan portfolio by separate categories with similar risk and collateral characteristics. Impaired loans are segregated and reviewed separately. All non-accrual loans are classified as impaired loans. The Company's Board of Directors reviews and approves management's evaluation of the adequacy of the allowance for loan losses on a quarterly basis.

The allowance for loan losses is established through charges to earnings in the form of a provision (benefit) for loan losses. Increases and decreases in the allowance other than charge-offs and recoveries are included in the provision (benefit) for loan losses. When a loan or a portion of a loan is determined to be uncollectible, the portion deemed uncollectible is charged against the allowance, and subsequent recoveries, if any, are credited to the allowance.

The Company recognizes a loan as non-performing when the borrower has demonstrated the inability to bring the loan current, or due to other circumstances which, in management's opinion, indicate the borrower will be unable to bring the loan current within a reasonable time. All loans classified as non-performing, which includes all loans past due 90 days or more, are classified as non-accrual unless there is, in our opinion, compelling evidence the borrower will bring the loan current in the immediate future. Appraisals are obtained and/or updated internal evaluations are prepared as soon as practical, and before the loan becomes 90 days delinquent. The loan balances of collateral dependent impaired loans are compared to the property's updated fair value. The Company considers fair value of collateral dependent loans to be 85% of the appraised or internally estimated value of the property. The balance which exceeds fair value is generally charged-off.

A loan is considered impaired when, based upon current information, the Company believes it is probable that it will be unable to collect all amounts due, both principal and interest, in accordance with the original terms of the loan. Impaired loans are measured based on the present value of the expected future cash flows discounted at the loan's effective interest rate or at the loan's observable market price or, as a practical expedient, the fair value of the collateral if the loan is collateral dependent. Interest income on impaired loans is recorded on the cash basis. The Company's management considers all non-accrual loans impaired.

The Company reviews each impaired loan on an individual basis to determine if either a charge-off or a valuation allowance needs to be allocated to the loan. The Company does not charge-off or allocate a valuation allowance to loans for which management has concluded the current value of the underlying collateral will allow for recovery of the loan balance either through the sale of the loan or by foreclosure and sale of the property.

The Company evaluates the underlying collateral through a third party appraisal, or when a third party appraisal is not available, the Company will use an internal evaluation. The internal evaluations are prepared using an income approach or a sales approach. The income approach is used for income producing properties and uses current revenues less operating expenses to determine the net cash flow of the property. Once the net cash flow is determined, the value of the property is calculated using an appropriate capitalization rate for the property. The sales approach uses comparable sales prices in the market. When an internal evaluation is used, we place greater reliance on the income approach to value the collateral.



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In preparing internal evaluations of property values, the Company seeks to obtain current data on the subject property from various sources, including: (1) the borrower; (2) copies of existing leases; (3) local real estate brokers and appraisers; (4) public records (such as for real estate taxes and water and sewer charges); (5) comparable sales and rental data in the market; (6) an inspection of the property and (7) interviews with tenants. These internal evaluations primarily focus on the income approach and comparable sales data to value the property.

As of June 30, 2014, we utilized recent third party appraisals of the collateral to measure impairment for \$47.4 million, or 76.2%, of collateral dependent impaired loans, and used internal evaluations of the property's value for \$14.8 million, or 23.8%, of collateral dependent impaired loans.

The Company may restructure a loan to enable a borrower experiencing financial difficulties to continue making payments when it is deemed to be in the Company's best long-term interest. This restructure may include reducing the interest rate or amount of the monthly payment for a specified period of time, after which the interest rate and repayment terms revert to the original terms of the loan. We classify these loans as Troubled Debt Restructured ("TDR").

These restructurings have not included a reduction of principal balance. The Company believes that restructuring these loans in this manner will allow certain borrowers to become and remain current on their loans. Restructured loans are classified as a TDR when the Bank grants a concession to a borrower who is experiencing financial difficulties. All loans classified as TDR are considered impaired, however TDR loans which have been current for six consecutive months at the time they are restructured as TDR remain on accrual status and are not included as part of non-performing loans. Loans which were delinquent at the time they are restructured as a TDR are placed on non-accrual status and reported as non-performing loans until they have made timely payments for six consecutive months. Loans that are restructured as TDR but are not performing in accordance with the restructured terms are placed on non-accrual status and reported as non-performing loans.

The allocation of a portion of the allowance for loan losses for a performing TDR loan is based upon the present value of the future expected cash flows discounted at the loan's original effective rate, or for a non-performing TDR which is collateral dependent, the fair value of the collateral. At June 30, 2014, there were no commitments to lend additional funds to borrowers whose loans were modified to a TDR. The modification of loans to a TDR did not have a significant effect on our operating results, nor did it require a significant allocation of the allowance for loan losses.

The Bank did not modify and classify any loans as TDR during the three or six months ended June 30, 2014.

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The following table shows loans modified and classified as TDR during the three and six months ended June 30, 2013:

<i>(Dollars in thousands)</i>	For the three months ended June 30, 2013			For the six months ended June 30, 2013		
	Number	Balance	Modification description	Number	Balance	Modification description
Multi-family residential	-	\$ -		1	\$ 413	Received a below market interest rate and the loan amortization was extended
Commercial real estate	1	488	Received a below market interest rate, loan amortization was extended, and loan term extended	2	761	Received a below market interest rate and the loan amortization was extended
One-to-four family - mixed-use property	1	390	Received a below market interest rate, loan amortization was extended, and loan term extended	1	390	Received a below market interest rate and the loan amortization was extended
Commercial business and other	-	-		1	615	Received a below market interest rate and the loan term was extended
<b>Total</b>	<b>2</b>	<b>\$ 878</b>		<b>5</b>	<b>\$ 2,179</b>	

The recorded investment of each of the loans modified and classified to a TDR, presented in the table above, was unchanged as there was no principal forgiven in any of these modifications.

The following table shows our recorded investment for loans classified as TDR that are performing according to their restructured terms at the periods indicated:

<i>(Dollars in thousands)</i>	June 30, 2014		December 31, 2013	
	Number of contracts	Recorded investment	Number of contracts	Recorded investment
Multi-family residential	10	\$ 3,061	10	\$ 3,087
Commercial real estate	4	3,652	4	3,686
One-to-four family - mixed-use property	7	2,405	8	2,692
One-to-four family - residential	1	359	1	364
Construction	-	-	1	746
Commercial business and other	3	1,066	4	3,127
<b>Total performing troubled debt restructured</b>	<b>25</b>	<b>\$ 10,543</b>	<b>28</b>	<b>\$ 13,702</b>

During the six months ended June 30, 2014, two TDR loans totaling \$2.4 million were transferred to non-performing status when they became over 90 days past maturity, which resulted in these loans being included in non-performing loans. These loans were paid in full during the quarter ended June 30, 2014. During the six months ended June 30, 2014, one additional TDR loan for \$0.2 million was transferred to non-performing status when it became 90 days past due as to payments. During the six months ended June 30, 2013, there were no loans classified as TDR transferred to non-performing status.

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The following table shows our recorded investment for loans classified as TDR that are not performing according to their restructured terms at the periods indicated:

	June 30, 2014		December 31, 2013	
	Number of contracts	Recorded investment	Number of contracts	Recorded investment
<i>(Dollars in thousands)</i>				
Commercial real estate	1	\$ 2,186	1	\$ 2,332
One-to-four family - mixed-use property	1	187	-	-
Total troubled debt restructurings that subsequently defaulted	<u>2</u>	<u>\$ 2,373</u>	<u>1</u>	<u>\$ 2,332</u>

The following table shows our non-performing loans at the periods indicated:

	June 30, 2014	December 31, 2013
<i>(In thousands)</i>		
<b>Loans 90 days or more past due and still accruing:</b>		
Multi-family residential	\$ 987	\$ 52
Commercial real estate	266	-
One-to-four family - mixed-use property	1,303	-
One-to-four family - residential	14	15
Commercial Business and other	410	539
Total	<u>2,980</u>	<u>606</u>
<b>Non-accrual mortgage loans:</b>		
Multi-family residential <sup>(1)</sup>	10,861	13,297
Commercial real estate	9,761	9,962
One-to-four family - mixed-use property	8,713	9,063
One-to-four family - residential	11,346	13,250
Co-operative apartments	-	57
Total	<u>40,681</u>	<u>45,629</u>
<b>Non-accrual non-mortgage loans:</b>		
Commercial Business and other	2,130	2,348
Total	<u>2,130</u>	<u>2,348</u>
<b>Total non-accrual loans</b>	<u>42,811</u>	<u>47,977</u>
<b>Total non-accrual loans and days or more past due and still accruing</b>	<u>\$ 45,791</u>	<u>\$ 48,583</u>

(1) The table above does not include non-performing Loans held for sale of \$0.4 million at December 31, 2013.

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

The following is a summary of interest foregone on non-accrual loans and loans classified as TDR for the periods indicated:

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
	<i>(In thousands)</i>			
Interest income that would have been recognized had the loans performed in accordance with their original terms	\$ 989	\$ 1,697	\$ 1,979	\$ 3,510
Less: Interest income included in the results of operations	151	220	318	496
Total foregone interest	<u>\$ 838</u>	<u>\$ 1,477</u>	<u>\$ 1,661</u>	<u>\$ 3,014</u>

The following table shows an age analysis of our recorded investment in loans at June 30, 2014:

<i>(in thousands)</i>	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans
Multi-family residential	\$ 12,320	\$ 1,325	\$ 10,860	\$ 24,505	\$ 1,759,606	\$ 1,784,111
Commercial real estate	8,615	-	9,762	18,377	491,847	510,224
One-to-four family - mixed-use property	14,325	718	8,714	23,757	557,450	581,207
One-to-four family - residential	2,363	472	11,136	13,971	178,924	192,895
Co-operative apartments	-	-	-	-	9,885	9,885
Construction loans	-	-	-	-	4,717	4,717
Small Business Administration	108	-	-	108	7,435	7,543
Taxi medallion	-	-	-	-	25,291	25,291
Commercial business and other	51	-	1,190	1,241	404,612	405,853
Total	<u>\$ 37,782</u>	<u>\$ 2,515</u>	<u>\$ 41,662</u>	<u>\$ 81,959</u>	<u>\$ 3,439,767</u>	<u>\$ 3,521,726</u>

The following table shows an age analysis of our recorded investment in loans at December 31, 2013:

<i>(in thousands)</i>	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans
	<i>(in thousands)</i>					
Multi-family residential	\$ 14,101	\$ 2,554	\$ 13,297	\$ 29,952	\$ 1,682,087	\$ 1,712,039
Commercial real estate	5,029	523	9,962	15,514	497,038	512,552
One-to-four family - mixed-use property	14,017	1,099	9,063	24,179	571,572	595,751
One-to-four family - residential	3,828	518	12,953	17,299	176,427	193,726
Co-operative apartments	99	-	144	243	9,894	10,137
Construction loans	-	-	-	-	4,247	4,247
Small Business Administration	106	-	-	106	7,686	7,792
Taxi medallion	-	-	-	-	13,123	13,123
Commercial business and other	187	2	1,213	1,402	372,239	373,641
Total	<u>\$ 37,367</u>	<u>\$ 4,696</u>	<u>\$ 46,632</u>	<u>\$ 88,695</u>	<u>\$ 3,334,313</u>	<u>\$ 3,423,008</u>

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

The following table shows the activity in the allowance for loan losses for the three months ended June 30, 2014:

(in thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family - residential	Co-operative apartments	Construction loans	Small Business Administration	Taxi medallion	Commercial business and other	Total
<b>Allowance for credit losses:</b>										
Beginning balance	\$ 11,103	\$ 5,379	\$ 7,142	\$ 1,944	\$ -	\$ 40	\$ 391	\$ 14	\$ 4,257	\$ 30,270
Charge-off's	(69)	(39)	(175)	(37)	-	-	(49)	-	(1)	(370)
Recoveries	134	-	95	97	-	-	51	-	50	427
Provision (benefit)	(418)	(13)	(69)	(214)	-	(6)	(20)	-	(352)	(1,092)
Ending balance	\$ 10,750	\$ 5,327	\$ 6,993	\$ 1,790	\$ -	\$ 34	\$ 373	\$ 14	\$ 3,954	\$ 29,235
Ending balance: individually evaluated for impairment	\$ 299	\$ 197	\$ 601	\$ 56	\$ -	\$ -	\$ -	\$ -	\$ 150	\$ 1,303
Ending balance: collectively evaluated for impairment	\$ 10,451	\$ 5,130	\$ 6,392	\$ 1,734	\$ -	\$ 34	\$ 373	\$ 14	\$ 3,804	\$ 27,932
<b>Financing Receivables:</b>										
Ending balance	\$ 1,784,111	\$ 510,224	\$ 581,207	\$ 192,895	\$ 9,885	\$ 4,717	\$ 7,543	\$ 25,291	\$ 405,853	\$ 3,521,726
Ending balance: individually evaluated for impairment	\$ 20,613	\$ 16,728	\$ 16,704	\$ 13,505	\$ -	\$ 570	\$ -	\$ -	\$ 7,899	\$ 76,019
Ending balance: collectively evaluated for impairment	\$ 1,763,498	\$ 493,496	\$ 564,503	\$ 179,390	\$ 9,885	\$ 4,147	\$ 7,543	\$ 25,291	\$ 397,954	\$ 3,445,707

The following table shows the activity in the allowance for loan losses for the three months ended June 30, 2013:

(in thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family - residential	Co-operative apartments	Construction loans	Small Business Administration	Taxi medallion	Commercial business and other	Total
<b>Allowance for credit losses:</b>										
Beginning balance	\$ 12,395	\$ 5,660	\$ 6,340	\$ 2,077	\$ 88	\$ 67	\$ 471	\$ 7	\$ 3,922	\$ 31,027
Charge-off's	(1,261)	(53)	(529)	-	-	(70)	(133)	-	(560)	(2,606)
Recoveries	54	213	58	75	4	-	30	-	-	434
Provision (benefit)	1,770	64	565	(53)	7	199	129	-	819	3,500
Ending balance	\$ 12,958	\$ 5,884	\$ 6,434	\$ 2,099	\$ 99	\$ 196	\$ 497	\$ 7	\$ 4,181	\$ 32,355
Ending balance: individually evaluated for impairment	\$ 272	\$ 290	\$ 693	\$ 60	\$ -	\$ 34	\$ -	\$ -	\$ 377	\$ 1,726
Ending balance: collectively evaluated for impairment	\$ 12,686	\$ 5,594	\$ 5,741	\$ 2,039	\$ 99	\$ 162	\$ 497	\$ 7	\$ 3,804	\$ 30,629
<b>Financing Receivables:</b>										
Ending balance	\$ 1,607,090	\$ 526,063	\$ 605,254	\$ 196,318	\$ 9,335	\$ 11,450	\$ 8,565	\$ 5,114	\$ 306,897	\$ 3,276,086
Ending balance: individually evaluated for impairment	\$ 26,012	\$ 34,895	\$ 19,146	\$ 14,530	\$ 266	\$ 9,710	\$ 483	\$ -	\$ 7,551	\$ 112,593
Ending balance: collectively evaluated for impairment	\$ 1,581,078	\$ 491,168	\$ 586,108	\$ 181,788	\$ 9,069	\$ 1,740	\$ 8,082	\$ 5,114	\$ 299,346	\$ 3,163,493

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FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

The following table shows the activity in the allowance for loan losses for the six months ended June 30, 2014:

(in thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family - residential	Co-operative apartments	Construction loans	Small Business Administration	Taxi medallion	Commercial business and other	Total
<b>Allowance for credit losses:</b>										
Beginning balance	\$ 12,084	\$ 4,959	\$ 6,328	\$ 2,079	\$ 104	\$ 444	\$ 458	\$ -	\$ 5,320	\$ 31,776
Charge-off's	(674)	(86)	(258)	(79)	-	-	(49)	-	(125)	(1,271)
Recoveries	141	382	135	165	7	-	61	-	50	941
Provision (benefit)	(801)	72	788	(375)	(111)	(410)	(97)	14	(1,291)	(2,211)
Ending balance	\$ 10,750	\$ 5,327	\$ 6,993	\$ 1,790	\$ -	\$ 34	\$ 373	\$ 14	\$ 3,954	\$ 29,235
Ending balance: individually evaluated for impairment	\$ 299	\$ 197	\$ 601	\$ 56	\$ -	\$ -	\$ -	\$ -	\$ 150	\$ 1,303
Ending balance: collectively evaluated for impairment	\$ 10,451	\$ 5,130	\$ 6,392	\$ 1,734	\$ -	\$ 34	\$ 373	\$ 14	\$ 3,804	\$ 27,932
<b>Financing Receivables:</b>										
Ending balance	\$ 1,784,111	\$ 510,224	\$ 581,207	\$ 192,895	\$ 9,885	\$ 4,717	\$ 7,543	\$ 25,291	\$ 405,853	\$3,521,726
Ending balance: individually evaluated for impairment	\$ 20,613	\$ 16,728	\$ 16,704	\$ 13,505	\$ -	\$ 570	\$ -	\$ -	\$ 7,899	\$ 76,019
Ending balance: collectively evaluated for impairment	\$ 1,763,498	\$ 493,496	\$ 564,503	\$ 179,390	\$ 9,885	\$ 4,147	\$ 7,543	\$ 25,291	\$ 397,954	\$3,445,707

The following table shows the activity in the allowance for loan losses for the six months ended June 30, 2013:

(in thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family - residential	Co-operative apartments	Construction loans	Small Business Administration	Taxi medallion	Commercial business and other	Total
<b>Allowance for credit losses:</b>										
Beginning balance	\$ 13,001	\$ 5,705	\$ 5,960	\$ 1,999	\$ 46	\$ 66	\$ 505	\$ 7	\$ 3,815	\$ 31,104
Charge-off's	(2,749)	(734)	(3,135)	(691)	(74)	(304)	(337)	-	(864)	(8,888)
Recoveries	65	293	111	106	4	-	60	-	-	639
Provision (benefit)	2,641	620	3,498	685	123	434	269	-	1,230	9,500
Ending balance	\$ 12,958	\$ 5,884	\$ 6,434	\$ 2,099	\$ 99	\$ 196	\$ 497	\$ 7	\$ 4,181	\$ 32,355
Ending balance: individually evaluated for impairment	\$ 272	\$ 290	\$ 693	\$ 60	\$ -	\$ 34	\$ -	\$ -	\$ 377	\$ 1,726
Ending balance: collectively evaluated for impairment	\$ 12,686	\$ 5,594	\$ 5,741	\$ 2,039	\$ 99	\$ 162	\$ 497	\$ 7	\$ 3,804	\$ 30,629
<b>Financing Receivables:</b>										
Ending balance	\$ 1,607,090	\$ 526,063	\$ 605,254	\$ 196,318	\$ 9,335	\$ 11,450	\$ 8,565	\$ 5,114	\$ 306,897	\$3,276,086
Ending balance: individually evaluated for impairment	\$ 26,012	\$ 34,895	\$ 19,146	\$ 14,530	\$ 266	\$ 9,710	\$ 483	\$ -	\$ 7,551	\$ 112,593
Ending balance: collectively evaluated for impairment	\$ 1,581,078	\$ 491,168	\$ 586,108	\$ 181,788	\$ 9,069	\$ 1,740	\$ 8,082	\$ 5,114	\$ 299,346	\$3,163,493

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**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Unaudited)

The following table shows our recorded investment, unpaid principal balance and allocated allowance for loan losses, average recorded investment and interest income recognized for loans that were considered impaired at or for the six month period ended June 30, 2014:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<i>(In thousands)</i>					
<b>With no related allowance recorded:</b>					
Mortgage loans:					
Multi-family residential	\$ 17,252	\$ 19,470	\$ -	\$ 17,670	\$ 120
Commercial real estate	11,535	11,865	-	14,036	112
One-to-four family mixed-use property	13,059	15,221	-	12,987	101
One-to-four family residential	13,146	16,119	-	13,363	46
Co-operative apartments	-	-	-	-	-
Construction	570	570	-	570	14
Non-mortgage loans:					
Small Business Administration	-	-	-	-	-
Taxi Medallion	-	-	-	-	-
Commercial Business and other	5,570	7,159	-	5,467	98
<b>Total loans with no related allowance recorded</b>	<b>61,132</b>	<b>70,404</b>	<b>-</b>	<b>64,093</b>	<b>491</b>
<b>With an allowance recorded:</b>					
Mortgage loans:					
Multi-family residential	3,361	3,361	299	3,086	33
Commercial real estate	5,193	5,259	197	4,108	96
One-to-four family mixed-use property	3,645	3,732	601	3,396	75
One-to-four family residential	359	359	56	361	7
Co-operative apartments	-	-	-	-	-
Construction	-	-	-	373	86
Non-mortgage loans:					
Small Business Administration	-	-	-	-	-
Taxi Medallion	-	-	-	-	-
Commercial Business and other	2,329	2,329	150	3,560	27
<b>Total loans with an allowance recorded</b>	<b>14,887</b>	<b>15,040</b>	<b>1,303</b>	<b>14,884</b>	<b>324</b>
<b>Total Impaired Loans:</b>					
Total mortgage loans	\$ 68,120	\$ 75,956	\$ 1,153	\$ 69,950	\$ 690
Total non-mortgage loans	\$ 7,899	\$ 9,488	\$ 150	\$ 9,027	\$ 125

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**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

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(Unaudited)

The following table shows our recorded investment, unpaid principal balance and allocated allowance for loan losses, average recorded investment and interest income recognized for loans that were considered impaired at or for the year ended December 31, 2013:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<i>(In thousands)</i>					
<b>With no related allowance recorded:</b>					
Mortgage loans:					
Multi-family residential	\$ 18,709	\$ 20,931	\$ -	\$ 22,091	\$ 402
Commercial real estate	16,721	17,405	-	19,846	266
One-to-four family mixed-use property	12,748	15,256	-	13,916	319
One-to-four family residential	14,026	17,527	-	14,529	125
Co-operative apartments	59	147	-	189	-
Construction	-	118	-	4,014	-
Non-mortgage loans:					
Small Business Administration	-	-	-	247	-
Taxi Medallion	-	-	-	-	-
Commercial Business and other	3,225	5,527	-	5,309	268
<b>Total loans with no related allowance recorded</b>	<b>65,488</b>	<b>76,911</b>	<b>-</b>	<b>80,141</b>	<b>1,380</b>
<b>With an allowance recorded:</b>					
Mortgage loans:					
Multi-family residential	3,048	3,049	312	2,892	170
Commercial real estate	3,036	3,102	164	6,388	194
One-to-four family mixed-use property	4,191	4,221	875	4,041	228
One-to-four family residential	364	364	58	368	15
Co-operative apartments	-	-	-	-	-
Construction	746	746	17	1,929	18
Non-mortgage loans:					
Small Business Administration	-	-	-	-	-
Taxi Medallion	-	-	-	-	-
Commercial Business and other	4,895	4,894	222	4,354	239
<b>Total loans with an allowance recorded</b>	<b>16,280</b>	<b>16,376</b>	<b>1,648</b>	<b>19,972</b>	<b>864</b>
<b>Total Impaired Loans:</b>					
Total mortgage loans	\$ 73,648	\$ 82,866	\$ 1,426	\$ 90,203	\$ 1,737
Total non-mortgage loans	\$ 8,120	\$ 10,421	\$ 222	\$ 9,910	\$ 507

In accordance with our policy and the current regulatory guidelines, we designate loans as “Special Mention,” which are considered “Criticized Loans,” and “Substandard,” “Doubtful,” or “Loss,” which are considered “Classified Loans”. If a loan does not fall within one of the previous mentioned categories then the loan would be considered “Pass.” These loan designations are updated quarterly. We designate a loan as Substandard when a well-defined weakness is identified that jeopardizes the orderly liquidation of the debt. We designate a loan Doubtful when it displays the inherent weakness of a Substandard loan with the added provision that collection of the debt in full, on the basis of existing facts, is highly improbable. We designate a loan as Loss if it is deemed the debtor is incapable of repayment. The Company does not hold any loans designated as Loss, as loans that are designated as Loss are charged to the Allowance for Loan Losses. Loans that are non-accrual are designated as Substandard or Doubtful. We designate a loan as Special Mention if the asset does not warrant classification within one of the other classifications, but does contain a potential weakness that deserves closer attention.



**PART I – FINANCIAL INFORMATION**

**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

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(Unaudited)

The following table sets forth the recorded investment in loans designated as Criticized or Classified at June 30, 2014:

<i>(In thousands)</i>	Special Mention	Substandard	Doubtful	Loss	Total
Multi-family residential	\$ 9,622	\$ 15,905	\$ 1,647	\$ -	\$ 27,174
Commercial real estate	10,626	14,339	-	-	24,965
One-to-four family - mixed-use property	4,438	14,682	-	-	19,120
One-to-four family - residential	2,869	13,146	-	-	16,015
Co-operative apartments	-	-	-	-	-
Construction loans	-	570	-	-	570
Small Business Administration	301	-	-	-	301
Commercial business and other	5,262	6,145	50	-	11,457
<b>Total loans</b>	<b>\$ 33,118</b>	<b>\$ 64,787</b>	<b>\$ 1,697</b>	<b>\$ -</b>	<b>\$ 99,602</b>

The following table sets forth the recorded investment in loans designated as Criticized or Classified at December 31, 2013:

<i>(In thousands)</i>	Special Mention	Substandard	Doubtful	Loss	Total
Multi-family residential	\$ 9,940	\$ 19,089	\$ -	\$ -	\$ 29,029
Commercial real estate	13,503	16,820	-	-	30,323
One-to-four family - mixed-use property	7,992	14,898	-	-	22,890
One-to-four family - residential	2,848	14,026	-	-	16,874
Co-operative apartments	-	59	-	-	59
Construction loans	746	-	-	-	746
Small Business Administration	310	-	-	-	310
Commercial business and other	7,314	8,450	50	-	15,814
<b>Total loans</b>	<b>\$ 42,653</b>	<b>\$ 73,342</b>	<b>\$ 50</b>	<b>\$ -</b>	<b>\$ 116,045</b>

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

<i>(In thousands)</i>	For the three months ended June 30		For the six months ended June 30	
	2014	2013	2014	2013
Balance, beginning of period	\$ 30,270	\$ 31,027	\$ 31,776	\$ 31,104
Provision (benefit) for loan losses	(1,092)	3,500	(2,211)	9,500
Charge-off's	(370)	(2,606)	(1,271)	(8,888)
Recoveries	427	434	941	639
<b>Balance, end of period</b>	<b>\$ 29,235</b>	<b>\$ 32,355</b>	<b>\$ 29,235</b>	<b>\$ 32,355</b>

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**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Unaudited)

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

<i>(In thousands)</i>	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Multi-family residential	\$ (65)	\$ 1,207	\$ 533	\$ 2,684
Commercial real estate	39	(160)	(296)	441
One-to-four family – mixed-use property	80	471	123	3,024
One-to-four family – residential	(60)	(75)	(86)	585
Co-operative apartments	-	(4)	(7)	70
Construction	-	70	-	304
Small Business Administration	(2)	103	(12)	277
Commercial business and other	(49)	560	75	864
<b>Total net loan charge-offs (recoveries)</b>	<b>\$ (57)</b>	<b>\$ 2,172</b>	<b>\$ 330</b>	<b>\$ 8,249</b>

Commitments to extend credit (principally real estate mortgage loans) and lines of credit (principally home equity lines of credit and business lines of credit) amounted to \$102.0 million and \$168.6 million, respectively, at June 30, 2014.

**6. Loans held for sale**

Loans held for sale are carried at the lower of cost or estimated fair value. At June 30, 2014, the Bank did not have any loans held for sale. At December 31, 2013, the Bank had one multi-family loan held for sale of \$0.4 million.

The Company has implemented a strategy of selling certain delinquent and non-performing loans. Once the Company has decided to sell a loan, the sale usually closes in a short period of time, generally within the same quarter. Loans designated as held for sale are reclassified from loans held for investment to loans held for sale. Terms of sale include cash due upon the closing of the sale, no contingencies or recourse to the Company and servicing is released to the buyer.

The following tables show delinquent and non-performing loans sold during the periods indicated:

<i>(Dollars in thousands)</i>	For the three months ended June 30, 2014			
	Loans sold	Proceeds	Net recoveries	Net gain (loss)
Multi-family residential	3	\$ 1,478	\$ 76	\$ -
Commercial real estate	1	430	-	-
<b>Total</b>	<b>4</b>	<b>\$ 1,908</b>	<b>\$ 76</b>	<b>\$ -</b>

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**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Unaudited)

<i>(Dollars in thousands)</i>	For the three months ended June 30, 2013			
	Loans sold	Proceeds	Net charge-offs	Net gain (loss)
Multi-family residential	9	\$ 2,447	\$ (468)	\$ -
Commercial real estate	5	2,349	(18)	-
One-to-four family - mixed-use property	24	5,589	(70)	-
Total	<u>38</u>	<u>\$ 10,385</u>	<u>\$ (556)</u>	<u>\$ -</u>

The above table does not include the sale of one performing commercial real estate loan for \$2.4 million, resulting in a net gain of \$184,000 during the three months ended June 30, 2013.

The following tables show delinquent and non-performing loans sold during the periods indicated:

<i>(Dollars in thousands)</i>	For the six months ended June 30, 2014			
	Loans sold	Proceeds	Net (charge-offs) recoveries	Net gain (loss)
Multi-family residential	7	\$ 3,216	\$ (70)	\$ -
Commercial real estate	3	2,047	295	-
One-to-four family - mixed-use property	6	2,069	38	-
Total	<u>16</u>	<u>\$ 7,332</u>	<u>\$ 263</u>	<u>\$ -</u>

<i>(Dollars in thousands)</i>	For the six months ended June 30, 2013			
	Loans sold	Proceeds	Net charge-offs	Net gain (loss)
Multi-family residential	15	\$ 7,059	\$ (576)	\$ 6
Commercial real estate	7	3,464	(94)	-
One-to-four family - mixed-use property	30	7,961	(110)	(15)
Commercial business and other	2	66	(185)	-
Total	<u>54</u>	<u>\$ 18,550</u>	<u>\$ (965)</u>	<u>\$ (9)</u>

The above table does not include the sale of one performing commercial real estate loan for \$2.4 million, resulting in a net gain of \$184,000 during the six months ended June 30, 2013.

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**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Unaudited)

**7. Other Real Estate Owned**

The following are changes in Other Real Estate Owned (“OREO”) during the periods indicated:

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
	<i>(In thousands)</i>			
Balance at beginning of period	\$ 1,700	\$ 2,189	\$ 2,985	\$ 5,278
Acquisitions	491	2,079	606	2,758
Recovery (write-down) of carrying value	49	(115)	(5)	(180)
Sales	(894)	(1,562)	(2,240)	(5,265)
Balance at end of period	<u>\$ 1,346</u>	<u>\$ 2,591</u>	<u>\$ 1,346</u>	<u>\$ 2,591</u>

The following table shows the gross gains, gross losses and write-downs of OREO reported in the Consolidated Statements of Income during the periods indicated:

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
	<i>(In thousands)</i>			
Gross gains	\$ 77	\$ 40	\$ 131	\$ 240
Gross losses	-	(66)	(30)	(88)
Recovery (write-down) of carrying value	49	(115)	(5)	(180)
Total	<u>\$ 126</u>	<u>\$ (141)</u>	<u>\$ 96</u>	<u>\$ (28)</u>

**8. Stock-Based Compensation**

For the three months ended June 30, 2014 and 2013, the Company’s net income, as reported, includes \$0.6 million and \$0.4 million, respectively, of stock-based compensation costs and \$0.2 million and \$0.2 million, respectively, of income tax benefits related to the stock-based compensation plans. For the six months ended June 30, 2014 and 2013, the Company’s net income, as reported, includes \$3.1 million and \$2.4 million, respectively, of stock-based compensation costs and \$1.2 million and \$0.9 million, respectively, of income tax benefits related to the stock-based compensation plans.

The Company estimates the fair value of stock options using the Black-Scholes valuation model. Key assumptions used to estimate the fair value of stock options include the exercise price of the award, the expected option term, the expected volatility of the Company’s stock price, the risk-free interest rate over the options’ expected term and the annual dividend yield. The Company uses the fair value of the common stock on the date of award to measure compensation cost for restricted stock unit awards. Compensation cost is recognized over the vesting period of the award using the straight line method. During the six months ended June 30, 2014 and 2013, the Company granted 264,095 and 243,645 restricted stock units, respectively. There were no restricted stock units granted during the three months ended June 30, 2014 and 2013. There were no stock options granted during the six months ended June 30, 2014 and 2013.

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The 2014 Omnibus Incentive Plan (“Omnibus Plan”) became effective on May 20, 2014 after approval by the stockholders. The Omnibus Plan authorizes the Compensation Committee of the Company’s Board of Directors (the “Compensation Committee”) to grant a variety of equity compensation awards as well as long-term and annual cash incentive awards, all of which can, but need not, be structured so as to comply with Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”). The Omnibus Plan authorizes the issuance of 1,100,000 shares. To the extent that an award under the Omnibus Plan is cancelled, expired, forfeited, settled in cash, settled by issuance of fewer shares than the number underlying the award, or otherwise terminated without delivery of shares to a participant in payment of the exercise price or taxes relating to an award, the shares retained by or returned to the Company will be available for future issuance under the Omnibus Plan. Although, commencing upon the approval of the Omnibus Plan by stockholders, no further awards may be granted under the Company’s 2005 Omnibus Incentive Plan, 1996 Stock Option Incentive Plan, and 1996 Restricted Stock Incentive Plan (the “Prior Plans”), all outstanding awards under the Prior Plans shall continue in accordance with their terms. At June 30, 2014, there were 1,100,000 shares available for delivery in connection with awards under the Omnibus Plan. To satisfy stock option exercises or fund restricted stock and restricted stock unit awards, shares are issued from treasury stock, if available; otherwise new shares are issued. The exercise price per share of a stock option grant may not be less than the fair market value of the common stock of the Company, as defined in the Omnibus Plan, on the date of grant and may not be re-priced without the approval of the Company’s stockholders. Options, stock appreciation rights, restricted stock, restricted stock units and other stock based awards granted under the Omnibus Plan are generally subject to a minimum vesting period of three years with stock options having a 10-year maximum contractual term. Other awards do not have a contractual term of expiration. The Compensation Committee is authorized to grant awards that vest upon a participant’s retirement. These amounts are included in stock-based compensation expense at the time of the participant’s retirement eligibility.

The following table summarizes the Company’s restricted stock unit (“RSU”) awards under the Omnibus Plan and the Prior Plans in the aggregate at or for the six months ended June 30, 2014:

	Shares	Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2013	346,584	\$ 14.08
Granted	264,095	20.18
Vested	(200,124)	16.89
Forfeited	(15,356)	15.38
Non-vested at June 30, 2014	<u>395,199</u>	<u>\$ 16.68</u>
Vested but unissued at June 30, 2014	<u>227,083</u>	<u>\$ 16.95</u>

As of June 30, 2014, there was \$5.4 million of total unrecognized compensation cost related to RSU awards granted under the Omnibus Plan and the Prior Plans. That cost is expected to be recognized over a weighted-average period of 3.4 years. There were no awards vested during the three months ended June 30, 2014. The total fair value of awards vested for the three months ended June 30, 2013 were \$0.2 million. The total fair value of awards vested for the six months ended June 30, 2014 and 2013 were \$4.1 million and \$2.8 million, respectively. The vested but unissued RSU awards consist of awards made to employees and directors who are eligible for retirement. According to the terms of these awards, which provide for vesting upon retirement, these employees and directors have no risk of forfeiture. These shares will be issued at the original contractual vesting and settlement dates.

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The following table summarizes certain information regarding the stock option awards under the Omnibus Plan and the Prior Plans in the aggregate at or for the six months ended June 30, 2014:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual (years)	Aggregate Intrinsic Value \$ (000) *
Outstanding at December 31, 2013	306,630	\$ 16.02		
Granted	-	-		
Exercised	(100,625)	17.08		
Forfeited	-	-		
Outstanding at June 30, 2014	<u>206,005</u>	<u>\$ 15.49</u>	3.4	\$ 1,148
Exercisable shares at June 30, 2014	<u>206,005</u>	<u>\$ 15.49</u>	3.4	\$ 1,148

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

As of June 30, 2014, there is no remaining unrecognized compensation cost related to stock options granted.

Cash proceeds, fair value received, tax benefits and the intrinsic value related to stock options exercised during the three and six months ended June 30, 2014 and 2013 are provided in the following table:

<i>(In thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Proceeds from stock options exercised	\$ 87	\$ 212	\$ 429	\$ 235
Fair value of shares received upon exercised of stock options	812	937	1,290	1,574
Tax benefit related to stock options exercised	24	115	93	168
Intrinsic value of stock options exercised	105	203	317	377

*Phantom Stock Plan:* The Company maintains a non-qualified phantom stock plan as a supplement to its profit sharing plan for officers who have achieved the level of Senior Vice President and above and completed one year of service. However, officers who had achieved at least the level of Vice President and completed one year of service prior to January 1, 2009 remain eligible to participate in the phantom stock plan. Awards are made under this plan on certain compensation not eligible for awards made under the profit sharing plan, due to the terms of the profit sharing plan and the Internal Revenue Code. Employees receive awards under this plan proportionate to the amount they would have received under the profit sharing plan, but for limits imposed by the profit sharing plan and the Internal Revenue Code. The awards are made as cash awards, and then converted to common stock equivalents (phantom shares) at the then current market value of the Company's common stock. Dividends are credited to each employee's account in the form of additional phantom shares each time the Company pays a dividend on its common stock. In the event of a change of control (as defined in this plan), an employee's interest is converted to a fixed dollar amount and deemed to be invested in the same manner as his interest in the Bank's non-qualified deferred compensation plan. Employees vest under this plan 20% per year for 5 years. Employees also become 100% vested upon a change of control. Employees receive their vested interest in this plan in the form of a cash lump sum payment or installments, as elected by the employee, after termination of employment. The Company adjusts its liability under this plan to the fair value of the shares at the end of each period.

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The following table summarizes the Phantom Stock Plan at or for the six months ended June 30, 2014:

Phantom Stock Plan	Shares	Fair Value
Outstanding at December 31, 2013	59,323	\$ 20.70
Granted	8,609	19.89
Forfeited	(13)	21.51
Distributions	(668)	20.10
Outstanding at June 30, 2014	<u>67,251</u>	<u>\$ 20.55</u>
Vested at June 30, 2014	<u>67,066</u>	<u>\$ 20.55</u>

The Company recorded stock-based compensation benefit for the Phantom Stock Plan of \$25,000 and \$21,000 for the three months ended June 30, 2014 and 2013, respectively. The total fair value of the distributions from the Phantom Stock Plan was \$7,000 and \$8,000 for the three months ended June 30, 2014 and 2013, respectively.

For the six months ended June 30, 2014 and 2013, the Company recorded stock-based compensation expense for the Phantom Stock Plan of \$17,000 and \$78,000, respectively. The total fair value of the distributions from the Phantom Stock Plan during the six months ended June 30, 2014 and 2013 were \$13,000 and \$8,000, respectively.

**9. Pension and Other Postretirement Benefit Plans**

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

<i>(In thousands)</i>	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
<b>Employee Pension Plan:</b>				
Interest cost	\$ 223	\$ 207	\$ 446	\$ 414
Amortization of unrecognized loss	190	306	380	612
Expected return on plan assets	(336)	(315)	(672)	(630)
Net employee pension expense	<u>\$ 77</u>	<u>\$ 198</u>	<u>\$ 154</u>	<u>\$ 396</u>
<b>Outside Director Pension Plan:</b>				
Service cost	\$ 13	\$ 21	\$ 26	\$ 42
Interest cost	29	24	58	48
Amortization of unrecognized gain	(15)	(9)	(30)	(18)
Amortization of past service liability	10	9	20	18
Net outside director pension expense	<u>\$ 37</u>	<u>\$ 45</u>	<u>\$ 74</u>	<u>\$ 90</u>
<b>Other Postretirement Benefit Plans:</b>				
Service cost	\$ 90	\$ 112	\$ 180	\$ 224
Interest cost	63	55	126	110
Amortization of unrecognized loss	-	12	-	24
Amortization of past service credit	(22)	(20)	(43)	(40)
Net other postretirement expense	<u>\$ 131</u>	<u>\$ 159</u>	<u>\$ 263</u>	<u>\$ 318</u>

The Company previously disclosed in its Consolidated Financial Statements for the year ended December 31, 2013 that it expects to contribute \$0.2 million and \$0.3 million to the Outside Director Pension Plan (the "Outside Director Pension Plan") and the other postretirement benefit plans (the "Other Postretirement Benefit Plans"), respectively, during the year ending December 31, 2014. The Company does not expect to make a contribution to the Employee Pension Plan (the "Employee Pension Plan"). As of June 30, 2014, the Company has contributed \$48,000 to the Outside Director Pension Plan and \$34,000 to the Other Postretirement Benefit Plans. As of June 30, 2014, the Company has not revised its expected contributions for the year ending December 31, 2014.

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**10. Fair Value of Financial Instruments**

The Company carries certain financial assets and financial liabilities at fair value in accordance with ASC Topic 825, “Financial Instruments” (“ASC Topic 825”) and values those financial assets and financial liabilities in accordance with ASC Topic 820, “Fair Value Measurements and Disclosures” (“ASC Topic 820”). ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC Topic 825 permits entities to choose to measure many financial instruments and certain other items at fair value. At June 30, 2014, the Company carried financial assets and financial liabilities under the fair value option with fair values of \$38.9 million and \$29.4 million, respectively. At December 31, 2013, the Company carried financial assets and financial liabilities under the fair value option with fair values of \$37.3 million and \$29.6 million, respectively. The Company elected to measure at fair value, securities with a cost of \$5.0 million that were purchased during the six months ended June 30, 2014. The Company did not elect to carry any additional financial assets or financial liabilities under the fair value option during the six months ended June 30, 2013. During the six months ended June 30, 2014, the Company sold financial assets carried under the fair value option totaling \$1.9 million.

The following table presents the financial assets and financial liabilities reported at fair value under the fair value option, and the changes in fair value included in the Consolidated Statement of Income – Net gain (loss) from fair value adjustments, at or for the periods ended as indicated:

(Dollars in thousands)	Fair Value Measurements at June 30, 2014	Fair Value Measurements at December 31, 2013	Changes in Fair Values For Items Measured at Fair Value Pursuant to Election of the Fair Value Option			
			Three Months Ended		Six Months Ended	
			June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Mortgage-backed securities	\$ 5,182	\$ 7,119	\$ 24	\$ (169)	\$ 72	\$ (531)
Other securities	33,718	30,163	172	(220)	497	53
Borrowed funds	29,388	29,570	154	(1,456)	179	(2,275)
Net gain (loss) from fair value adjustments <sup>(1) (2)</sup>			\$ 350	\$ (1,845)	\$ 748	\$ (2,753)

(1) The net gain (loss) from fair value adjustments presented in the above table does not include net gains (losses) of (\$0.8) million and \$1.5 million for the three months ended June 30, 2014 and 2013, respectively, from the change in the fair value of interest rate caps/Swaps.

(2) The net gain (loss) from fair value adjustments presented in the above table does not include net gains (losses) of (\$1.8) million and \$2.3 million for the six months ended June 30, 2014 and 2013, respectively, from the change in the fair value of interest rate caps/Swaps.

Included in the fair value of the financial assets and financial liabilities selected for the fair value option is the accrued interest receivable or payable for the related instrument. The Company accrues on the financial instruments and reports, as interest income or interest expense in the Consolidated Statement of Income, the interest receivable or payable on the financial instruments selected for the fair value option at their respective contractual rates.

The borrowed funds have a contractual principal amount of \$61.9 million at both June 30, 2014 and December 31, 2013. The fair value of borrowed funds includes accrued interest payable of \$0.1 million at June 30, 2014 and December 31, 2013.

The Company generally holds its earning assets, other than securities available for sale, to maturity and settles its liabilities at maturity. However, fair value estimates are made at a specific point in time and are based on relevant market information. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company’s entire holdings of a particular instrument. Accordingly, as assumptions change, such as interest rates and prepayments, fair value estimates change and these amounts may not necessarily be realized in an immediate sale.

Disclosure of fair value does not require fair value information for items that do not meet the definition of a financial instrument or certain other financial instruments specifically excluded from its requirements. These items include core deposit intangibles and other customer relationships, premises and equipment, leases, income taxes and equity.



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Further, fair value disclosure does not attempt to value future income or business. These items may be material and accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying “market” or franchise value of the Company.

Financial assets and financial liabilities reported at fair value are required to be measured based on either: (1) quoted prices in active markets for identical financial instruments (Level 1); (2) significant other observable inputs (Level 2); or (3) significant unobservable inputs (Level 3).

A description of the methods and significant assumptions utilized in estimating the fair value of the Company’s assets and liabilities that are carried at fair value on a recurring basis are as follows:

Level 1 – where quoted market prices are available in an active market. The Company did not value any of its assets or liabilities that are carried at fair value on a recurring basis as Level 1 at June 30, 2014 and December 31, 2013.

Level 2 – when quoted market prices are not available, fair value is estimated using quoted market prices for similar financial instruments and adjusted for differences between the quoted instrument and the instrument being valued. Fair value can also be estimated by using pricing models, or discounted cash flows. Pricing models primarily use market-based or independently sourced market parameters as inputs, including, but not limited to, yield curves, interest rates, equity or debt prices and credit spreads. In addition to observable market information, models also incorporate maturity and cash flow assumptions. At June 30, 2014 and December 31, 2013, Level 2 included mortgage related securities, corporate debt and interest rate caps/Swaps.

Level 3 – when there is limited activity or less transparency around inputs to the valuation, financial instruments are classified as Level 3. At June 30, 2014 and December 31, 2013, Level 3 included municipal securities and trust preferred securities owned by and junior subordinated debentures issued by the Company.

The methods described above may produce fair values that may not be indicative of net realizable value or reflective of future fair values. While the Company believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies, assumptions and models to determine fair value of certain financial instruments could produce different estimates of fair value at the reporting date.

The following table sets forth the assets and liabilities that are carried at fair value on a recurring basis and the method that was used to determine their fair value, at June 30, 2014 and December 31, 2013:

	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Other Unobservable Inputs (Level 3)		Total carried at fair value on a recurring basis	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
<b>Assets:</b>								
Mortgage-backed Securities	\$ -	\$ -	\$ 770,545	\$ 756,156	\$ -	\$ -	\$ 770,545	\$ 756,156
Other securities	-	-	264,184	237,476	23,953	24,158	288,137	261,634
Interest rate swaps	-	-	178	2,081	-	-	178	2,081
<b>Total assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$1,034,907</b>	<b>\$ 995,713</b>	<b>\$ 23,953</b>	<b>\$ 24,158</b>	<b>\$ 1,058,860</b>	<b>\$ 1,019,871</b>
<b>Liabilities:</b>								
Borrowings	\$ -	\$ -	\$ -	\$ -	\$ 29,388	\$ 29,570	\$ 29,388	\$ 29,570
Interest rate swaps	-	-	254	-	-	-	254	-
<b>Total liabilities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 254</b>	<b>\$ -</b>	<b>\$ 29,388</b>	<b>\$ 29,570</b>	<b>\$ 29,642</b>	<b>\$ 29,570</b>

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The following table sets forth the Company's assets and liabilities that are carried at fair value on a recurring basis, classified within Level 3 of the valuation hierarchy for the period indicated:

	For the three months ended		
	June 30, 2014		
	<u>Municipals</u>	<u>Trust preferred securities</u>	<u>Junior subordinated debentures</u>
	<i>(In thousands)</i>		
Beginning balance	\$ 10,170	\$ 13,059	\$ 29,541
Transfer into Level 3	-	-	-
Purchases	475	-	-
Principal repayments	(53)	-	-
Net gain from fair value adjustment of financial assets	-	29	-
Net gain from fair value adjustment of financial liabilities	-	-	(154)
Increase in accrued interest payable	-	-	1
Change in unrealized gains (losses) included in other comprehensive income	-	273	-
Ending balance	<u>\$ 10,592</u>	<u>\$ 13,361</u>	<u>\$ 29,388</u>
Changes in unrealized held at period end	<u>\$ -</u>	<u>\$ 242</u>	<u>\$ -</u>

The following table sets forth the Company's assets and liabilities that are carried at fair value on a recurring basis, classified within Level 3 of the valuation hierarchy for the period indicated:

	For the three months ended			
	June 30, 2013			
	<u>REMIC and CMO</u>	<u>Municipals</u>	<u>Trust preferred securities</u>	<u>Junior subordinated debentures</u>
	<i>(In thousands)</i>			
Beginning balance	\$ 23,761	\$ 9,378	\$ 7,427	\$ 24,742
Transfer into Level 3	-	-	-	-
Net gain from fair value adjustment of financial assets	-	-	265	-
Net loss from fair value adjustment of financial liabilities	-	-	-	1,456
Increase in accrued interest payable	-	-	-	(6)
Other-than-temporary impairment charge	(503)	-	-	-
Change in unrealized gains (losses) included in other comprehensive income	(328)	(51)	675	-
Ending balance	<u>\$ 22,930</u>	<u>\$ 9,327</u>	<u>\$ 8,367</u>	<u>\$ 26,192</u>
Changes in unrealized held at period end	<u>\$ (42)</u>	<u>\$ (102)</u>	<u>\$ 1,205</u>	<u>\$ -</u>

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The following table sets forth the Company's assets and liabilities that are carried at fair value on a recurring basis, classified within Level 3 of the valuation hierarchy for the period indicated:

	For the six months ended June 30, 2014		
	Municipals	Trust preferred securities	Junior subordinated debentures
	<i>(In thousands)</i>		
Beginning balance	\$ 9,223	\$ 14,935	\$ 29,570
Transfer into Level 3	-	-	-
Purchases	2,475	-	-
Principal repayments	(1,106)	-	-
Sales	-	(1,871)	-
Net gain from fair value adjustment of financial assets	-	55	-
Net gain from fair value adjustment of financial liabilities	-	-	(179)
Decrease in accrued interest payable	-	-	(3)
Change in unrealized gains (losses) included in other comprehensive income	-	242	-
Ending balance	<u>\$ 10,592</u>	<u>\$ 13,361</u>	<u>\$ 29,388</u>
Changes in unrealized held at period end	<u>\$ -</u>	<u>\$ 242</u>	<u>\$ -</u>

The following table sets forth the Company's assets and liabilities that are carried at fair value on a recurring basis, classified within Level 3 of the valuation hierarchy for the period indicated:

	For the six months ended June 30, 2013			
	REMIC and CMO	Municipals	Trust preferred securities	Junior subordinated debentures
	<i>(In thousands)</i>			
Beginning balance	\$ 23,475	\$ 9,429	\$ 6,650	\$ 23,922
Transfer into Level 3	-	-	-	-
Net gain from fair value adjustment of financial assets	-	-	512	-
Net loss from fair value adjustment of financial liabilities	-	-	-	2,275
Increase in accrued interest payable	-	-	-	(5)
Other-than-temporary impairment charge	(503)	-	-	-
Change in unrealized gains (losses) included in other comprehensive income	(42)	(102)	1,205	-
Ending balance	<u>\$ 22,930</u>	<u>\$ 9,327</u>	<u>\$ 8,367</u>	<u>\$ 26,192</u>
Changes in unrealized held at period end	<u>\$ (42)</u>	<u>\$ (102)</u>	<u>\$ 1,205</u>	<u>\$ -</u>

During the three and six months ended June 30, 2014 and 2013, there were no transfers between Levels 1, 2 and 3.

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The following table presents the quantitative information about recurring Level 3 fair value of financial instruments and the fair value measurements as of June 30, 2014:

June 30, 2014	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)		
				<i>(Dollars in thousands)</i>		
<b>Assets:</b>						
Municipals	\$ 10,592	Discounted cash flows	Discount rate	0.5%	-	4.0% (3.2%)
			Discount rate	7.0%	-	11.0% (8.5%)
			Prepayment assumptions	25.2%	-	36.8% (30.8%)
Trust Preferred Securities	\$ 13,361	Discounted cash flows	Defaults	8.3%	-	15.0% (11.6%)
<b>Liabilities:</b>						
Junior subordinated debentures	\$ 29,388	Discounted cash flows	Discount rate	7.0%		(7.0%)

The significant unobservable inputs used in the fair value measurement of the Company's municipal securities valued under Level 3 are the securities' effective yield. Significant increases or decreases in the effective yield in isolation would result in a significantly lower or higher fair value measurement.

The significant unobservable inputs used in the fair value measurement of the Company's trust preferred securities valued under Level 3 are the securities' prepayment assumptions and default rate. Significant increases or decreases in any of the inputs in isolation would result in a significantly lower or higher fair value measurement.

The significant unobservable inputs used in the fair value measurement of the Company's junior subordinated debentures under Level 3 are effective yield. Significant increases or decreases in the effective yield in isolation would result in a significantly lower or higher fair value measurement.

The following table sets forth the Company's assets and liabilities that are carried at fair value on a non-recurring basis and the method that was used to determine their fair value, at June 30, 2014 and December 31, 2013:

	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Other Unobservable Inputs (Level 3)		Total carried at fair value on a recurring basis	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
<b>Assets:</b>								
Loans held for sale	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 425	\$ -	\$ 425
Impaired loans	-	-	-	-	33,099	23,544	33,099	23,544
Other real estate owned	-	-	-	-	1,346	2,985	1,346	2,985
<b>Total assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 34,445</b>	<b>\$ 26,954</b>	<b>\$ 34,445</b>	<b>\$ 26,954</b>

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The following table presents the quantitative information about non-recurring Level 3 fair value of financial instruments and the fair value measurements as of June 30, 2014:

June 30, 2014	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range (Weighted Average)</u>
	<i>(Dollars in thousands)</i>			
<b>Assets:</b>				
Impaired loans	\$ 33,099	Fair value of collateral	Loss severity discount	0.5% - 94.7% (39.2%)
Other real estate owned	\$ 1,346	Fair value of collateral	Loss severity discount	0.0% - 24.6% (4.5%)

The Company carries its Loans held for sale and OREO at the expected sales price less selling costs.

The Company carries its impaired collateral dependent loans at 85% of the appraised or internally estimated value of the underlying property.

The Company did not have any liabilities that were carried at fair value on a non-recurring basis at June 30, 2014 and December 31, 2013.

The estimated fair value of each material class of financial instruments at June 30, 2014 and December 31, 2013 and the related methods and assumptions used to estimate fair value are as follows:

**Cash and Due from Banks, Overnight Interest-Earning Deposits and Federal Funds Sold:**

The fair values of financial instruments that are short-term or reprice frequently and have little or no risk are considered to have a fair value that approximates carrying value (Level 1).

**FHLB-NY stock:**

The fair value is based upon the par value of the stock which equals its carrying value (Level 2).

**Securities Available for Sale:**

The estimated fair values of securities available for sale are contained in Note 6 of Notes to Consolidated Financial Statements. Fair value is based upon quoted market prices (Level 1 input), where available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities and adjusted for differences between the quoted instrument and the instrument being valued (Level 2 input). When there is limited activity or less transparency around inputs to the valuation, securities are valued using (Level 3 input).

**Loans held for sale:**

The fair value of non-performing loans held for sale is estimated through bids received on the loans and, as such, are classified as a Level 3 input.

**Loans:**

The estimated fair value of loans is estimated by discounting the expected future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and remaining maturities (Level 3 input).

For impaired loans, fair value is generally estimated by discounting management's estimate of future cash flows with a discount rate commensurate with the risk associated with such assets or for collateral dependent loans 85% of the appraised or internally estimated value of the property.(Level 3 input).

**Due to Depositors:**

The fair values of demand, passbook savings, NOW, money market deposits and escrow deposits are, by definition, equal to the amount payable on demand at the reporting dates (i.e. their carrying value) (Level 1). The fair value of fixed-maturity certificates of deposits are estimated by discounting the expected future cash flows using the rates currently offered for deposits of similar remaining maturities (Level 2 input).

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**Borrowings:**

The estimated fair value of borrowings are estimated by discounting the contractual cash flows using interest rates in effect for borrowings with similar maturities and collateral requirements (Level 2 input) or using a market-standard model (Level 3 input).

**Interest Rate Caps:**

The estimated fair value of interest rate caps is based upon broker quotes (Level 2 input).

**Interest Rate Swaps:**

The estimated fair value of interest rate swaps is based upon broker quotes (Level 2 input).

**Other Real Estate Owned:**

OREO are carried at fair value less selling costs. The fair value is based on appraised value through a current appraisal, or sometimes through an internal review, additionally adjusted by the estimated costs to sell the property (Level 3 input).

**Other Financial Instruments:**

The fair values of commitments to sell, lend or borrow are estimated using the fees currently charged or paid to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties or on the estimated cost to terminate them or otherwise settle with the counterparties at the reporting date. For fixed-rate loan commitments to sell, lend or borrow, fair values also consider the difference between current levels of interest rates and committed rates (where applicable).

At June 30, 2014 and December 31, 2013, the fair values of the above financial instruments approximate the recorded amounts of the related fees and were not considered to be material.

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FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

The following table sets forth the carrying amounts and estimated fair values of selected financial instruments based on the assumptions described above used by the Company in estimating fair value at June 30, 2014:

	June 30, 2014				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	<i>(in thousands)</i>				
<b>Assets:</b>					
Cash and due from banks	\$ 36,982	\$ 36,982	\$ 36,982	\$ -	\$ -
Mortgage-backed Securities	770,545	770,545	-	770,545	-
Other securities	288,137	288,137	-	264,184	23,953
Loans	3,532,537	3,607,781	-	-	3,607,781
FHLB-NY stock	51,407	51,407	-	51,407	-
Interest rate caps	-	-	-	-	-
Interest rate swaps	178	178	-	178	-
OREO	1,346	1,346	-	-	1,346
Total assets	<u>\$ 4,681,132</u>	<u>\$ 4,756,376</u>	<u>\$ 36,982</u>	<u>\$ 1,086,314</u>	<u>\$ 3,633,080</u>
<b>Liabilities:</b>					
Deposits	\$ 3,238,971	3,255,292	\$ 2,079,074	\$ 1,176,218	\$ -
Borrowings	1,112,202	1,135,968	-	1,106,580	29,388
Interest rate swaps	254	254	-	254	-
Total liabilities	<u>\$ 4,351,427</u>	<u>\$ 4,391,514</u>	<u>\$ 2,079,074</u>	<u>\$ 2,283,052</u>	<u>\$ 29,388</u>

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**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Unaudited)

The following table sets forth the carrying amounts and estimated fair values of selected financial instruments based on the assumptions described above used by the Company in estimating fair value at December 31, 2013:

	December 31, 2013				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	<i>(in thousands)</i>				
<b>Assets:</b>					
Cash and due from banks	\$ 33,485	\$ 33,485	\$ 33,485	\$ -	\$ -
Mortgage-backed Securities	756,156	756,156	-	756,156	-
Other securities	261,634	261,634	-	237,476	24,158
Loans held for sale	425	425	-	-	425
Loans	3,434,178	3,502,792	-	-	3,502,792
FHLB-NY stock	46,025	46,025	-	46,025	-
Interest rate caps	-	-	-	-	-
Interest rate swaps	2,081	2,081	-	2,081	-
OREO	2,985	2,985	-	-	2,985
Total assets	<u>\$ 4,536,969</u>	<u>\$ 4,605,583</u>	<u>\$ 33,485</u>	<u>\$ 1,041,738</u>	<u>\$ 3,530,360</u>
<b>Liabilities:</b>					
Deposits	\$ 3,232,780	\$ 3,253,261	\$ 2,111,825	\$ 1,141,436	\$ -
Borrowings	1,012,122	1,034,799	-	1,005,229	29,570
Total liabilities	<u>\$ 4,244,902</u>	<u>\$ 4,288,060</u>	<u>\$ 2,111,825</u>	<u>\$ 2,146,665</u>	<u>\$ 29,570</u>

**11. Derivative Financial Instruments**

At June 30, 2014 and December 31, 2013, the Company's derivative financial instruments consist of purchased options and swaps. The purchased options are used to mitigate the Company's exposure to rising interest rates on its financial liabilities without stated maturities. The Company's swaps are used to mitigate the Company's exposure to rising interest rates on a portion (\$18.0 million) of its floating rate junior subordinated debentures that have a contractual value of \$61.9 million. Additionally, the Company at times may use swaps to mitigate the Company's exposure to rising interest rates on its fixed rate loans.

At June 30, 2014 and December 31, 2013 derivatives with a combined notional amount of \$118.0 million are not designated as hedges. Derivatives with a combined notional amount of \$11.1 million and \$11.2 million are designated as fair value hedges at June 30, 2014 and December 31, 2013, respectively. Changes in the fair value of the derivatives not designated as hedges are reflected in "Net gain/loss from fair value adjustments" in the Consolidated Statements of Income. The portion of the change in the fair value of the derivative designated as a fair value hedge which is considered ineffective are reflected in "Net gain/loss from fair value adjustments" in the Consolidated Statements of Income.



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(Unaudited)

The following table sets forth information regarding the Company's derivative financial instruments at June 30, 2014:

	<u>At or for the six months ended June 30, 2014</u>		
	Notional Amount	Purchase Price	Net Carrying <sup>(1)</sup> Value
	<i>(In thousands)</i>		
Interest rate caps (non-hedge)	\$ 100,000	\$ 9,035	\$ -
Interest rate swaps (non-hedge)	18,000	-	7
Interest rate swaps (hedge)	11,100	-	(83)
Total derivatives	<u>\$ 129,100</u>	<u>\$ 9,035</u>	<u>\$ (76)</u>

(1) Derivatives in a net positive position are recorded as "Other assets" and derivatives in a net negative position are recorded as "Other liabilities" in the Consolidated Statements of Financial Condition.

The following table sets forth information regarding the Company's derivative financial instruments at December 31, 2013:

	<u>At or for the year ended December 31, 2013</u>		
	Notional Amount	Purchase Price	Value
	<i>(In thousands)</i>		
Interest rate caps (non-hedge)	\$ 100,000	\$ 9,035	\$ -
Interest rate swaps (non-hedge)	18,000	-	1,681
Interest rate swaps (hedge)	11,217	-	400
Total derivatives	<u>\$ 129,217</u>	<u>\$ 9,035</u>	<u>\$ 2,081</u>

(1) Derivatives in a net positive position are recorded as "Other assets" and derivatives in a net negative position are recorded as "Other liabilities" in the Consolidated Statements of Financial Condition.

The following table sets forth the effect of derivative instruments on the Consolidated Statements of Income for the periods indicated:

<i>(In thousands)</i>	<u>For the three months ended June 30,</u>		<u>For the six months ended June 30,</u>	
	2014	2013	2014	2013
	<b>Financial Derivatives:</b>			
Interest rate caps	\$ -	\$ (8)	\$ -	\$ (11)
Interest rate swaps	(752)	1,545	(1,794)	2,333
Net Gain (loss) <sup>(1)</sup>	<u>\$ (752)</u>	<u>\$ 1,537</u>	<u>\$ (1,794)</u>	<u>\$ 2,322</u>

(1) Net gains and (losses) are recorded as part of "Net loss from fair value adjustments" in the Consolidated Statements of Income.

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FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

12. Income Taxes

Flushing Financial Corporation files consolidated Federal and combined New York State and New York City income tax returns with its subsidiaries, with the exception of Flushing Financial Capital Trust II, Flushing Financial Capital Trust III, and Flushing Financial Capital Trust IV, which file separate Federal income tax returns as trusts, and Flushing Preferred Funding Corporation, which files a separate Federal and New York State income tax return as a real estate investment trust.

Income tax provisions are summarized as follows:

<i>(In thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
<b>Federal:</b>				
Current	\$ 5,675	\$ 5,187	\$ 8,412	\$ 8,021
Deferred	(162)	(524)	1,859	103
Total federal tax provision	5,513	4,663	10,271	8,124
<b>State and Local:</b>				
Current	2,102	1,724	3,368	2,305
Deferred	(17)	(232)	886	45
Total state and local tax provision	2,085	1,492	4,254	2,350
Total income tax provision	\$ 7,598	\$ 6,155	\$ 14,525	\$ 10,474

The effective tax rate was 39.4% and 39.0% for the three months ended June 30, 2014 and 2013, respectively, and 39.8% and 39.0% for the six months ended June 30, 2014 and 2013, respectively. The increase in the effective tax rate was primarily due to the impact of changes to the New York State tax code passed on March 31, 2014, resulting in a reduction in the Company's deferred tax assets. We expect to see a small reduction in our effective tax rate beginning in 2015 as a result of the changes in the New York State tax code.

The effective rates differ from the statutory federal income tax rate as follows:

<i>(dollars in thousands)</i>	For the three months ended June 30,				For the six months ended June 30,			
	2014		2013		2014		2013	
Taxes at federal statutory rate	\$ 6,749	35.0%	\$ 5,524	35.0%	\$ 12,777	35.0%	\$ 9,400	35.0%
Increase (reduction) in taxes resulting from:								
State and local income tax, net of Federal income tax benefit	1,355	7.0	970	6.1	2,765	7.6	1,528	5.7
Other	(506)	(2.6)	(339)	(2.1)	(1,017)	(2.8)	(454)	(1.7)
Taxes at effective rate	\$ 7,598	39.4%	\$ 6,155	39.0%	\$ 14,525	39.8%	\$ 10,474	39.0%

The Company has recorded a deferred tax asset of \$25.3 million at June 30, 2014, which is included in "Other assets" in the Consolidated Statements of Financial Condition. This represents the anticipated net federal, state and local tax benefits expected to be realized in future years upon the utilization of the underlying tax attributes comprising this balance. The Company has reported taxable income for federal, state, and local tax purposes in each of the past three fiscal years. In management's opinion, in view of the Company's previous, current and projected future earnings trend, the probability that some of the Company's \$19.2 million deferred tax liability can be used to offset a portion of the deferred tax asset, as well as certain tax planning strategies, it is more likely than not that the deferred tax asset will be fully realized. Accordingly, no valuation allowance was deemed necessary for the deferred tax asset at June 30, 2014.

**PART I – FINANCIAL INFORMATION**

**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
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**13. Accumulated Other Comprehensive Income:**

The following table sets forth the changes in accumulated other comprehensive income by component for the six months ended June 30, 2014:

	Unrealized Gains and (Losses) on		Total
	Available for Sale Securities	Defined Benefit Pension Items	
	<i>(In thousands)</i>		
Beginning balance, net of tax	\$ (8,522)	\$ (2,853)	\$ (11,375)
Other comprehensive income before reclassifications, net of tax	11,873	-	\$ 11,873
Amounts reclassified from accumulated other comprehensive income, net of tax	-	151	151
Net current period other comprehensive income, net of tax	11,873	151	12,024
Ending balance, net of tax	\$ 3,351	\$ (2,702)	\$ 649

The following table sets forth significant amounts reclassified out of accumulated other comprehensive income by component for the three months ended June 30, 2014:

Details about Accumulated Other Comprehensive Income Components	Amounts Reclassified from Accumulated Other Comprehensive Income <i>(Dollars in thousands)</i>	Affected Line Item in the Statement Where Net Income is Presented
Amortization of defined benefit pension items:		
Actuarial losses	\$ (175)(1)	Other expense
Prior service credits	12 (1)	Other expense
	(163)	Total before tax
	72	Tax benefit
	\$ (91)	Net of tax

(1) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (See Note 9 of the Notes to Consolidated Financial Statements "Pension and Other Postretirement Benefit Plans".)

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**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Unaudited)

The following table sets forth significant amounts reclassified out of accumulated other comprehensive income by component for the three months ended June 30, 2013:

Details about Accumulated Other Comprehensive Income Components	Amounts Reclassified from Accumulated Other Comprehensive Income <i>(Dollars in thousands)</i>	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains (losses) on available for sale securities:	\$ 18	Net gain on sale of securities
	(8)	Tax expense
	<u>\$ 10</u>	Net of tax
OTTI charges	\$ (503)	OTTI charge
	220	Tax benefit
	<u>\$ (283)</u>	Net of tax
Amortization of defined benefit pension items:		
Actuarial losses	\$ (309)(1)	Other expense
Prior service credits	11 (1)	Other expense
	(298)	Total before tax
	130	Tax benefit
	<u>\$ (168)</u>	Net of tax

(1) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (See Note 9 of the Notes to Consolidated Financial Statements “Pension and Other Postretirement Benefit Plans”).

The following table sets forth significant amounts reclassified out of accumulated other comprehensive income by component for the six months ended June 30, 2014:

Details about Accumulated Other Comprehensive Income Components	Amounts Reclassified from Accumulated Other Comprehensive Income <i>(Dollars in thousands)</i>	Affected Line Item in the Statement Where Net Income is Presented
Amortization of defined benefit pension items:		
Actuarial losses	\$ (350)(1)	Other expense
Prior service credits	23 (1)	Other expense
	(327)	Total before tax
	176	Tax benefit
	<u>\$ (151)</u>	Net of tax

(1) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (See Note 9 of the Notes to Consolidated Financial Statements “Pension and Other Postretirement Benefit Plans”).

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FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

The following table sets forth significant amounts reclassified out of accumulated other comprehensive income by component for the six months ended June 30, 2013:

Details about Accumulated Other Comprehensive Income Components	Amounts Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
	<i>(Dollars in thousands)</i>	
Unrealized gains losses on available for sale securities:	\$ 2,876	Net gain on sale of securities
	(1,257)	Tax expense
	<u>\$ 1,619</u>	Net of tax
OTTI charges	\$ (503)	OTTI charge
	220	Tax benefit
	<u>\$ (283)</u>	Net of tax
Amortization of defined benefit pension items:		
Actuarial losses	\$ (618)(1)	Other expense
Prior service credits	22 (1)	Other expense
	(596)	Total before tax
	260	Tax benefit
	<u>\$ (336)</u>	Net of tax

- (1) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (See Note 9 of the Notes to Consolidated Financial Statements "Pension and Other Postretirement Benefit Plans".)

**PART I – FINANCIAL INFORMATION**

**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Unaudited)

**14. Regulatory Capital**

Under current capital regulations, the Bank is required to comply with three separate capital adequacy standards. As of June 30, 2014, the Bank continues to be categorized as “well-capitalized” under the prompt corrective action regulations and continues to exceed all regulatory capital requirements.

Set forth below is a summary of the Bank’s compliance with banking regulatory capital standards.

*(Dollars in thousands)*

	Amount	Percent of Assets
<b>Tier I (leverage) capital:</b>		
Capital level	\$ 459,988	9.54%
Requirement to be well capitalized	240,978	5.00
Excess	219,010	4.54
<b>Tier I risk-based capital:</b>		
Capital level	\$ 459,988	14.13%
Requirement to be well capitalized	195,385	6.00
Excess	264,603	8.13
<b>Total risk-based capital:</b>		
Capital level	\$ 489,222	15.02%
Requirement to be well capitalized	325,641	10.00
Excess	163,581	5.02

The Holding Company is subject to the same regulatory capital requirements as the Bank. As of June 30, 2014, the Holding Company continues to be categorized as “well-capitalized” under the prompt corrective action regulations and continues to exceed all regulatory capital requirements.

Set forth below is a summary of the Holding Company’s compliance with banking regulatory capital standards.

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**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

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(Unaudited)

(Dollars in thousands)

	Amount	Percent of Assets
<b>Tier I (leverage) capital:</b>		
Capital level	\$ 472,547	9.82%
Requirement to be well capitalized	240,689	5.00
Excess	231,858	4.82
<b>Tier I risk-based capital:</b>		
Capital level	\$ 472,547	14.54%
Requirement to be well capitalized	195,018	6.00
Excess	277,529	8.54
<b>Total risk-based capital:</b>		
Capital level	\$ 501,782	15.44%
Requirement to be well capitalized	325,031	10.00
Excess	176,751	5.44

**15. New Authoritative Accounting Pronouncements**

In February 2013, the FASB issued ASU No. 2013-02, which amends the authoritative accounting guidance under ASC Topic 220 “Comprehensive Income.” The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under generally accepted accounting principles in the United States of America (“GAAP”) to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. The amendments in this update are effective prospectively for reporting periods beginning after December 15, 2012. Early adoption was permitted. Adoption of this update did not have a material effect on the Company’s consolidated results of operations or financial condition. (See Note 13 of Notes to Consolidated Financial Statements “Stockholders’ Equity”.)

In January 2014, the FASB issued ASU 2014-04 to clarify that when an in substance repossession or foreclosure occurs, a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU 2014- 04 is effective for annual reporting periods beginning after December 15, 2014. Adoption of this update is not expected to have a material effect on the Company’s consolidated results of operations or financial condition.

In May 2014, the FASB issued ASU 2014-09 which provides new guidance that supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition* . The guidance requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The guidance is effective for interim and annual reporting periods beginning after December 15, 2016. We are currently evaluating the impact of adopting this new guidance on our consolidated results of operations and financial condition.

In June 2014, the FASB issued ASU 2014-11 which amends the authoritative accounting guidance under ASC Topic 860 “Transfers and Servicing.” The amendments require two accounting changes. First, the amendments change the accounting for repurchase-to-maturity transactions to secured borrowing accounting. Second, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. The amendments also require additional disclosures regarding repurchase agreements. The amendments are effective for the first interim or annual period beginning after December 15, 2014. Entities are required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Early adoption is prohibited. The amendments regarding disclosures for certain transactions accounted for as a sale are required to be presented for interim and annual periods beginning after December 15, 2014, and the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings are required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The disclosures are not required to be presented for comparative periods before the effective date. We are currently evaluating the impact of adopting these amendments on our consolidated results of operations and financial condition.

**PART I – FINANCIAL INFORMATION**  
**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**  
**Management’s Discussion and Analysis of**  
**Financial Condition and Results of Operations**

**ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*This Quarterly Report should be read in conjunction with the more detailed and comprehensive disclosures included in our Annual Report on Form 10-K for the year ended December 31, 2013. In addition, please read this section in conjunction with our Consolidated Financial Statements and Notes to Consolidated Financial Statements contained herein.*

*As used in this Quarterly Report, the words “we,” “us,” “our” and the “Company” are used to refer to Flushing Financial Corporation and its direct and indirect wholly owned subsidiaries, Flushing Bank (the “Bank”), Flushing Preferred Funding Corporation, Flushing Service Corporation, and FSB Properties Inc.*

Statements contained in this Quarterly Report relating to plans, strategies, objectives, economic performance and trends, projections of results of specific activities or investments and other statements that are not descriptions of historical facts may be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking information is inherently subject to risks and uncertainties and actual results could differ materially from those currently anticipated due to a number of factors, which include, but are not limited to, factors discussed elsewhere in this Quarterly Report and in other documents filed by us with the Securities and Exchange Commission from time to time, including, without limitation, our Annual Report on Form 10-K for the year ended December 31, 2013. Forward-looking statements may be identified by terms such as “may,” “will,” “should,” “could,” “expects,” “plans,” “intends,” “anticipates,” “believes,” “estimates,” “predicts,” “forecasts,” “potential” or “continue” or similar terms or the negative of these terms. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We have no obligation to update these forward-looking statements.

**Executive Summary**

We are a Delaware corporation organized in May 1994. The Bank was organized in 1929 as a New York State-chartered mutual savings bank. In 1994, the Bank converted to a federally chartered mutual savings bank and changed its name from Flushing Savings Bank to Flushing Savings Bank, FSB. The Bank converted from a federally chartered mutual savings bank to a federally chartered stock savings bank on November 21, 1995, at which time Flushing Financial Corporation acquired all of the stock of the Bank. On February 28, 2013, the Bank’s charter was changed to a full-service New York State chartered commercial bank, and its name was changed to Flushing Bank. On July 21, 2011, as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Bank’s primary regulator became the Office of the Comptroller of the Currency and Flushing Financial Corporation’s primary regulator became the Federal Reserve Board of Governors. As a result of the Bank’s change in charter to a full-service New York State chartered commercial bank, the Bank’s primary regulator became the New York State Department of Financial Services (formerly, the New York State Banking Department), and its primary federal regulator became the Federal Deposit Insurance Corporation (“FDIC”). Deposits are insured to the maximum allowable amount by the FDIC. Additionally, the Bank is a member of the Federal Home Loan Bank system. Also in connection with the Merger, Flushing Financial Corporation became a bank holding company. The primary business of Flushing Financial Corporation has been the operation of the Bank. The Bank owns three subsidiaries: Flushing Preferred Funding Corporation, Flushing Service Corporation, and FSB Properties Inc. In November 2006, the Bank launched an internet branch, iGObanking.com<sup>®</sup>. The activities of Flushing Financial Corporation are primarily funded by dividends, if any, received from the Bank, issuances of junior subordinated debt, and issuances of equity securities. Flushing Financial Corporation’s common stock is traded on the NASDAQ Global Select Market under the symbol “FFIC.”



**PART I – FINANCIAL INFORMATION**  
**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**  
**Management’s Discussion and Analysis of**  
**Financial Condition and Results of Operations**

Our principal business is attracting retail deposits from consumers, businesses and public entities and investing those deposits together with funds generated from ongoing operations and borrowings, primarily in (1) originations and purchases of multi-family residential properties and, to a lesser extent, one-to-four family (focusing on mixed-use properties, which are properties that contain both residential dwelling units and commercial units) and commercial real estate mortgage loans; (2) construction loans, primarily for residential properties; (3) Small Business Administration (“SBA”) loans and other small business loans; (4) mortgage loan surrogates such as mortgage-backed securities; and (5) U.S. government securities, corporate fixed-income securities and other marketable securities. We also originate certain other consumer loans including overdraft lines of credit. Our results of operations depend primarily on net interest income, which is the difference between the income earned on its interest-earning assets and the cost of our interest-bearing liabilities. Net interest income is the result of our interest rate margin, which is the difference between the average yield earned on interest-earning assets and the average cost of interest-bearing liabilities, adjusted for the difference in the average balance of interest-earning assets as compared to the average balance of interest-bearing liabilities. We also generate non-interest income from loan fees, service charges on deposit accounts, mortgage servicing fees, and other fees, income earned on Bank Owned Life Insurance (“BOLI”), dividends on Federal Home Bank of New York (“FHLB-NY”) stock and net gains and losses on sales of securities and loans. Our operating expenses consist principally of employee compensation and benefits, occupancy and equipment costs, other general and administrative expenses and income tax expense. Our results of operations also can be significantly affected by our periodic provision for loan losses and specific provision for losses on real estate owned.

Our strategy is to continue our focus on being an institution serving consumers, businesses, and governmental entities in our local markets. In furtherance of this objective, we intend to:

- continue our emphasis on the origination of multi-family residential mortgage loans;
- continue to transition our balance sheet to a more ‘commercial-like’ banking institution;
- increase our commitment to the multi-cultural marketplace, with a particular focus on the Asian community in Queens;
- maintain asset quality;
- manage deposit growth and maintain a low cost of funds through
  - business banking deposits,
  - municipal deposits through government banking, and
  - new customer relationships via iGObanking.com®;
- cross sell to lending and deposit customers;
- take advantage of market disruptions to attract talent and customers from competitors;
- manage interest rate risk and capital: and
- manage enterprise-wide risk.

There can be no assurance that we will be able to effectively implement this strategy. Our strategy is subject to change by the Board of Directors.

Our investment policy, which is approved by the Board of Directors, is designed primarily to manage the interest rate sensitivity of our overall assets and liabilities, to generate a favorable return without incurring undue interest rate risk and credit risk, to complement our lending activities and to provide and maintain liquidity. In establishing our investment strategies, we consider our business and growth strategies, the economic environment, our interest rate risk exposure, our interest rate sensitivity “gap” position, the types of securities to be held and other factors. We classify our investment securities as available for sale.

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We carry a portion of our financial assets and financial liabilities at fair value and record changes in their fair value through earnings in non-interest income on our Consolidated Statements of Income and Comprehensive Income. A description of the financial assets and financial liabilities that are carried at fair value through earnings can be found in Note 10 of the Notes to the Consolidated Financial Statements.

The Bank continues to maintain conservative underwriting standards that include, among other things, a loan-to-value ratio of 75% or less and a debt coverage ratio of at least 125%. Multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans originated during the second quarter of 2014 had an average loan-to-value ratio of 46.7% and an average debt coverage ratio of 401%.

The continued improvement in credit quality allowed us to reduce our provision for loan losses for the second consecutive quarter. The provision for loan losses was a benefit of \$1.1 million for the second and first quarters of 2014, compared to a provision of \$1.0 million for the three months ended December 31, 2013. We continued to see reductions in delinquent loans, non-performing loans, and classified assets. Loans delinquent over 30 days increased \$0.4 million, or 0.4%, during the second quarter of 2014 to \$82.0 million. Loans delinquent over 90 days decreased \$0.3 million, or 0.8%, during the second quarter, and are at their lowest level since the fourth quarter of 2008. Non-accrual loans decreased by \$0.4 million, or 0.9%, during the second quarter to \$42.8 million, and are at their lowest level since the fourth quarter of 2008. During the second quarter of 2014 we sold four delinquent loans with a book value at the time of sale of \$1.8 million, realizing \$1.9 million upon sale, or 105% of book value.

Net recoveries for the second quarter of 2014 totaled \$0.1 million. We continued our practice of obtaining updated appraisals and recording charge-offs based on these current values as opposed to adding to the allowance for loan losses. This process has ensured that we have kept pace with changing values in the real estate market. The average loan-to-value ratio for our non-performing loans collateralized by real estate was 46.1% at June 30, 2014.

Net loans increased \$33.9 million, or 1.0%, during the second quarter of 2014, as loan originations for the quarter totaled \$191.2 million. Our loan pipeline at June 30, 2014 remained strong at \$364.3 million. Our lending departments continue to emphasize full relationship banking with our borrowers. Originations continue to be focused on multi-family and commercial business loans, which represented 56% and 25%, respectively, of loan originations during the second quarter of 2014.

Our net interest margin for the second quarter of 2014 was 3.22%, a decrease of three basis points from the first quarter of 2014. The decrease was primarily due to a six basis point decrease in the yield earned from interest-earning assets to 4.33% for the three months ended June 30, 2014, while the cost of interest-bearing liabilities decreased two basis points to 1.23% for the three months ended June 30, 2014. The decline in the yield of interest-earning assets was primarily due to the current interest rate environment, where new loans and securities are added at rates well below our portfolio average yield, and higher yielding loans and securities are prepaying. The decrease in the cost of interest-bearing liabilities was primarily due to decreases of seven basis points and three basis points in certificates of deposit and NOW accounts, respectively, partially offset by an increase of one basis point in the cost of money market accounts during the three months ended June 30, 2014. The yield earned during the three months ended June 30, 2014 was partially supported by additional interest collected on loans which were previously non-accrual and back payments were received. During each of the first two quarters of 2014, the yield included \$0.4 million and \$0.3 million in additional interest collected from non-accrual loans, respectively. Excluding this additional interest collected from non-accrual loans, the net interest margin would have decreased five basis points to 3.18% for the three months ended June 30, 2014 from 3.23% for the three months ended March 31, 2014. Further excluding prepayment penalty income, the net interest margin would have decreased four basis points to 3.07% for the three months ended June 30, 2014 from 3.11% for the three months ended March 31, 2014.

At June 30, 2014, the Bank continues to be well-capitalized under regulatory requirements, with Core, Tier 1 risk-based and Total risk-based capital ratios of 9.54%, 14.13% and 15.02%, respectively. At June 30, 2014, the Company’s capital ratios for Core, Tier 1 risk-based and Total risk-based capital ratios were 9.82%, 14.54% and 15.44%, respectively.

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**COMPARISON OF OPERATING RESULTS FOR THE THREE MONTHS ENDED JUNE 30, 2014 AND 2013**

**General.** Net income for the three months ended June 30, 2014 was \$11.7 million, an increase of \$2.1 million, or 21.4%, compared to \$9.6 million for the three months ended June 30, 2013. Diluted earnings per common share were \$0.39 for the three months ended June 30, 2014, an increase of \$0.07, or 21.9%, from \$0.32 for the three months ended June 30, 2013.

Return on average equity increased to 10.3% for the three months ended June 30, 2014 from 8.8% for the three months ended June 30, 2013. Return on average assets increased to 1.0% for the three months ended June 30, 2014 from 0.8% for the three months ended June 30, 2013.

**Interest Income.** Total interest and dividend income decreased \$0.7 million, or 1.4%, to \$49.6 million for the three months ended June 30, 2014 from \$50.3 million for the three months ended June 30, 2013. The decrease in interest income was attributable to a 37 basis point decline in the yield of interest-earning assets to 4.33% for the three months ended June 30, 2014 from 4.70% in the comparable prior year period partially offset as a result of an increase of \$301.9 million in the average balance of interest-earning assets to \$4,578.8 million for the three months ended June 30, 2014 from \$4,276.8 million for the comparable prior year period. The 37 basis point decline in the yield of interest-earning assets was primarily due to a 50 basis point reduction in the yield of the loan portfolio to 4.88% for the three months ended June 30, 2014 from 5.38% for the three months ended June 30, 2013, combined with a 17 basis point decline in the yield on total securities to 2.68% for the three months ended June 30, 2014 from 2.85% for the comparable prior year period. The 50 basis point decrease in the loan portfolio was primarily due to the decline in the rates earned on new loan originations, existing loans modifying to lower rates, and higher yielding loans prepaying. The yield on the loan portfolio, excluding prepayment penalty income, decreased 48 basis points to 4.72% for the three months ended June 30, 2014 from 5.20% for the three months ended June 30, 2013. The 17 basis point decrease in the yield of the securities portfolio was primarily due to the purchase of new securities at lower yields than the existing portfolio.

**Interest Expense.** Interest expense decreased \$0.3 million, or 2.0%, to \$12.7 million for the three months ended June 30, 2014 from \$13.0 million for the three months ended June 30, 2013. The decrease in interest expense was primarily due to an 11 basis point decrease in interest-bearing liabilities to 1.23% for the three months ended June 30, 2014 from 1.34% for the comparable prior year period. The 11 basis point decrease in the cost of interest-bearing liabilities was primarily due to the Bank reducing the rates it pays on its deposit products. The cost of certificates of deposit, savings accounts and NOW accounts decreased 11 basis points, one basis point and 11 basis points, respectively, partially offset by a seven basis point increase in the cost of money market accounts for the three months ended June 30, 2014 from the comparable prior year period. The cost was also positively affected by a movement in deposit concentrations as the average balance of lower costing core deposits increased \$135.2 million during the three months ended June 30, 2014 to \$1,933.7 million from \$1,798.5 million for the comparable prior year period, partially offset by an increase of \$9.0 million in the average balance of higher costing certificates of deposit to \$1,153.0 million for the three months ended June 30, 2014 from \$1,144.0 million for the comparable prior year period. These movements resulted in a decrease in the cost of due to depositors of 11 basis points to 0.99% for the three months ended June 30, 2014 from 1.10% for the three months ended June 30, 2013.

**Net Interest Income.** For the three months ended June 30, 2014, net interest income was \$36.8 million, a decrease of \$0.5 million, or 1.3%, from \$37.3 million for the three months ended June 30, 2013. The decrease in net interest income was primarily attributable to a 26 basis point decrease in the net-interest spread to 3.10% for the three months ended June 30, 2014 from 3.36% for the three months ended June 30, 2013, partially offset by the effect of an increase of \$301.9 million in the average balance of interest-earning assets to \$4,578.8 million for the three months ended June 30, 2014 from \$4,276.8 million for the comparable prior year period. The yield on interest-earning assets decreased 37 basis points to 4.33% for the three months ended June 30, 2014 from 4.70% for the three months ended June 30, 2013, while the cost of interest-bearing liabilities decreased 11 basis points to 1.23% for the three months ended June 30, 2014 from 1.34% for the comparable prior year period. The net interest margin declined 27 basis points to 3.22% for the three months ended June 30, 2014 from 3.49% for the three months ended June 30, 2013. Excluding prepayment penalty income on loans, the net interest margin would have decreased 25 basis points to 3.10% for the three months ended June 30, 2014 from 3.35% for the three months ended June 30, 2013.

**Provision for Loan Losses.** The provision for loan losses decreased \$4.6 million during the three months ended June 30, 2014 to a benefit of \$1.1 million from a provision of \$3.5 million during the comparable prior year period. The decrease in the provision was primarily due to the continued improvement in credit conditions. During the three months ended June 30, 2014, the Bank recorded net-recoveries of \$0.1 million and non-accrual loans decreased \$0.4 million to \$42.8 million from \$43.2 million at March 31, 2014. The current average loan-to-value ratio for our non-performing loans collateralized by real estate was 46.1% at June 30, 2014. When we have obtained properties through foreclosure, we have been able to quickly sell the properties at amounts that approximate book value. The Bank continues to maintain conservative underwriting standards. We anticipate that we will continue to see low loss content in our loan portfolio. As a result of the quarterly analysis of the allowance for loans losses, a reduction in the allowance was warranted, and as such, the Company recorded a benefit of \$1.1 million for the three months ended June 30, 2014. See “-ALLOWANCE FOR LOAN LOSSES.”

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**Non-Interest Income.** Non-interest income for the three months ended June 30, 2014 was \$2.0 million, a decrease of \$0.2 million, or 9.7% from \$2.2 million for the three months ended June 30, 2013. Non-interest income declined due to a \$0.1 million increase in net losses from fair value adjustments, a \$0.4 million decrease in banking service fee income primarily due to reduced ancillary loan fees, and a \$0.2 million decrease in net gain on sale of loans, as compared to the three months ended June 30, 2013. These decreases were partially offset by the comparable prior year period including an other-than-temporary impairment (“OTTI”) charge of \$0.5 million on private issued collateralized mortgage obligations (“CMOs”).

**Non-Interest Expense.** Non-interest expense was \$20.6 million for the three months ended June 30, 2014, an increase of \$0.4 million, or 2.0%, from \$20.2 million for the three months ended June 30, 2013. The increase was primarily due to an increase of \$1.0 million in salaries and employee benefits, partially offset by decreases of \$0.2 million in real estate owned/ foreclosure expense primarily due to a reduction in non-performing loans, \$0.3 million in other operating expenses, and \$0.1 million in FDIC insurance expense primarily due to a reduction in the assessment rate. The efficiency ratio was 52.9% for the three months ended June 30, 2014 compared to 49.7% for the three months ended June 30, 2013.

**Income before Income Taxes.** Income before the provision for income taxes increased \$3.5 million, or 22.2%, to \$19.3 million for the three months ended June 30, 2014 from \$15.8 million for the three months ended June 30, 2013 for the reasons discussed above.

**Provision for Income Taxes.** Income tax expense increased \$1.4 million, or 23.4%, to \$7.6 million for the three months ended June 30, 2014 from \$6.2 million for the three months ended June 30, 2013, primarily due to the increase in income before income taxes as discussed above. The effective tax rate was 39.4% and 39.0% for the three months ended June 30, 2014 and 2013, respectively. The increase in the effective tax rate was primarily due to the impact of changes to the New York State tax code passed on March 31, 2014, resulting in a nominal reduction in the Company’s deferred tax assets.

**COMPARISON OF OPERATING RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013**

**General.** Net income for the six months ended June 30, 2014 was \$22.0 million, an increase of \$5.6 million, or 34.2%, compared to \$16.4 million for the six months ended June 30, 2013. Diluted earnings per common share were \$0.73 for the six months ended June 30, 2014, an increase of \$0.19, or 35.2%, from \$0.54 for the six months ended June 30, 2013.

Return on average equity increased to 9.9% for the six months ended June 30, 2014, from 7.5% for the comparable prior year period. Return on average assets increased to 0.9% for the six months ended June 30, 2014, from 0.7% for the comparable prior year period.

**Interest Income.** Total interest and dividend income decreased \$1.6 million, or 1.6%, to \$98.8 million for the six months ended June 30, 2014 from \$100.4 million for the six months ended June 30, 2013. The decrease in interest income was attributable to a 40 basis point decline in the yield of interest-earning assets to 4.36% for the six months ended June 30, 2014 from 4.76% in the comparable prior year period. The decrease in the yield was partially offset as a result of a \$316.4 million increase in the average balance of interest-earning assets to \$4,532.6 million for the six months ended June 30, 2014 from \$4,216.2 million for the comparable prior year period. The 40 basis point decline in the yield of interest-earning assets was primarily due to a 46 basis point reduction in the yield of the loan portfolio to 4.92 % for the six months ended June 30, 2014 from 5.38% for the six months ended June 30, 2013, combined with a 26 basis point decline in the yield on total securities to 2.70% for the six months ended June 30, 2014 from 2.96% for the comparable prior year period. The yield of interest-earning assets was positively impacted as a result of a \$250.8 million increase in the average balance of the higher yielding loan portfolio for the six months ended June 30, 2014, partially offset as a result of a \$62.4 million increase in the average balance of the lower yielding securities portfolio for the six months ended June 30, 2014. The 46 basis point decrease in the yield of the loan portfolio was primarily due to a decline in the rates earned on new loan originations, existing loans modifying to lower rates, and higher yielding loans prepaying. The 26 basis point decrease in the yield of the securities portfolio was primarily due to the purchase of new securities at lower yields than the existing portfolio. The yield on the mortgage loan portfolio decreased 42 basis points to 5.10% for the six months ended June 30, 2014 from 5.52% for the six months ended June 30, 2013. The yield on the mortgage loan portfolio, excluding prepayment penalty income, decreased 41 basis points to 4.94% for the six months ended June 30, 2014 from 5.35% for the six months ended June 30, 2013.

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**Interest Expense** . Interest expense decreased \$3.5 million, or 12.0%, to \$25.5 million for the six months ended June 30, 2014 from \$28.9 million for the six months ended June 30, 2013. The decrease in interest expense was due to the reduction in the cost of interest-bearing liabilities, which decreased 27 basis points to 1.24% for the six months ended June 30, 2014 from 1.51% for the comparable prior year period and a shifting of deposit concentrations, as higher costing certificates of deposits average balance decreased \$53.8 million to \$1,131.5 million, while lower costing core deposits average balance increased \$227.1 million to \$1,933.4 million for the six months ended June 30, 2013. The 27 basis point decrease in the cost of interest-bearing liabilities was primarily attributable to the Bank reducing the rates it pays on its deposit products and a reduction in the cost of borrowed funds. The cost of certificates of deposit, savings accounts and NOW accounts decreased eight basis points, one basis point, and eight basis points, respectively, partially offset by an increase of eight basis points in the cost of money market accounts for the six months ended June 30, 2014 from the comparable prior year period. This resulted in a decrease in the cost of due to depositors of 13 basis points to 1.00% for the six months ended June 30, 2014 from 1.13% for the six months ended June 30, 2013. The cost of borrowed funds decreased 75 basis points to 2.03% for the six months ended June 30, 2014 from 2.78% for the six months ended June 30, 2013 with the average balance increasing \$85.9 million to \$990.6 million for the six months ended June 30, 2014 from \$904.6 million for the six months ended June 30, 2013. The decline in the cost of borrowed funds was primarily due to the prepayment of \$68.5 million in FHLB-NY advances during the first quarter of 2013 at an average cost of 3.21% which was scheduled to mature in 2014 and replacing those borrowings with new long-term advances costing 0.75%, partially offset by a \$2.6 million prepayment penalty incurred on the transaction.

**Net Interest Income** . For the six months ended June 30, 2014, net interest income was \$73.3 million, an increase of \$1.9 million, or 2.6%, from \$71.4 million for the six months ended June 30, 2013. The increase in net interest income was primarily attributable to the prior year period including a \$2.6 million prepayment penalty recorded on borrowings.

Excluding the \$2.6 million prepayment penalty recorded on borrowings during the prior year period, net interest income for the six months ended June 30, 2014 would have decreased \$0.7 million, or 1.0%, to \$73.3 million from \$74.0 million for the six months ended June 30, 2013. The decrease in net interest income was primarily attributable to a 27 basis point decrease in the net-interest spread to 3.12% for the six months ended June 30, 2014 from 3.39% for the six months ended June 30, 2013, partially offset by the effect of an increase of \$316.4 million in the average balance of interest-earning assets to \$4,532.6 million for the six months ended June 30, 2014 from \$4,216.2 million for the comparable prior year period. The yield on interest-earning assets decreased 40 basis points to 4.36% for the six months ended June 30, 2014 from 4.76% for the six months ended June 30, 2013, while the cost of interest-bearing liabilities decreased 13 basis points to 1.24% for the six months ended June 30, 2014 from 1.37% for the comparable prior year period. The net interest margin decreased 27 basis points to 3.24% for the six months ended June 30, 2014 from 3.51% for the six months ended June 30, 2013. Excluding prepayment penalty income, the net interest margin would have decreased 27 basis points to 3.12% for the six months ended June 30, 2014 from 3.39% for the six months ended June 30, 2013.

**Provision for Loan Losses** . The provision for loan losses decreased \$11.7 million during the six months ended June 30, 2014 to a benefit of \$2.2 million from a provision of \$9.5 million during the comparable prior year period. During the six months ended June 30, 2014, non-performing loans decreased \$3.2 million to \$45.8 million from \$49.0 million at December 31, 2013. Net charge-offs for the six months ended June 30, 2014 totaled \$0.3 million, or two basis points of average loans. The current loan-to-value ratio for our non-performing loans collateralized by real estate was 46.1% at June 30, 2014. When we have obtained properties through foreclosure, we have been able to quickly sell the properties at amounts that approximate book value. We anticipate that we will continue to see low loss content in our loan portfolio. The Bank continues to maintain conservative underwriting standards. As a result of the quarterly analysis of the allowance for loans losses, a reduction in the allowance was warranted, and as such, the Company recorded a benefit of \$2.2 million for the six months ended June 30, 2014. See “-ALLOWANCE FOR LOAN LOSSES.”

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**Non-Interest Income** . Non-interest income for the six months ended June 30, 2014 was \$3.7 million, a decrease of \$3.9 million from \$7.5 million for the six months ended June 30, 2013. The decrease in non-interest income was primarily due to the \$2.9 million gain from the sale of mortgage-backed securities during the six months ended June 30, 2013. Non-interest income also declined due to a \$0.6 million increase in net losses from fair value adjustments and a decrease of \$0.7 million in banking service fees. These decreases were partially offset by the comparable prior year period including an OTTI charge on private issued CMOs of \$0.5 million.

**Non-Interest Expense** . Non-interest expense was \$42.7 million for the six months ended June 30, 2014, an increase of \$0.1 million, or 0.2%, from \$42.6 million for the six months ended June 30, 2013. The increase was primarily due to an increase of \$1.3 million in salaries and benefits expense primarily due to annual salary increases and an increase in the cost of grants of annual restricted stock unit awards. This increase was partially offset by decreases of \$0.4 million and \$0.6 million in FDIC insurance expense and real estate owned/foreclosure expense, respectively. The efficiency ratio was 54.7% for the six months ended June 30, 2014 compared to 53.2% for the six months ended June 30, 2013.

**Income before Income Taxes** . Income before the provision for income taxes increased \$9.6 million, or 35.9%, to \$36.5 million for the six months ended June 30, 2014 from \$26.9 million for the six months ended June 30, 2013 for the reasons discussed above.

**Provision for Income Taxes** . Income tax expense increased \$4.1 million to \$14.5 million for the six months ended June 30, 2014 from \$10.5 million for the six months ended June 30, 2013. The effective tax rate was 39.8% and 39.0% for the six months ended June 30, 2014 and 2013, respectively.

**FINANCIAL CONDITION**

**Assets** . Total assets at June 30, 2014 were \$4,853.8 million, an increase of \$132.3 million, or 2.8%, from \$4,721.5 million at December 31, 2013. Total loans, net increased \$100.9 million during the six months ended June 30, 2014 to \$3,503.3 million from \$3,402.4 million at December 31, 2013. Loan originations and purchases were \$389.2 million for the six months ended June 30, 2014, an increase of \$16.1 million from \$373.1 million for the six months ended June 30, 2013. During the six months ended June 30, 2014, we continued to focus on the origination of multi-family properties and business loans with a full relationship. Loan applications in process have continued to remain strong, totaling \$364.3 million at June 30, 2014 compared to \$297.5 million at December 31, 2013 and \$342.3 million at June 30, 2013.

The following table shows loan originations and purchases for the periods indicated:

<i>(In thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Multi-family residential	\$ 107,197	\$ 132,292	\$ 165,009	\$ 175,217
Commercial real estate	18,205	31,612	31,621	38,598
One-to-four family – mixed-use property	8,429	7,344	18,428	11,734
One-to-four family – residential	6,404	6,380	15,504	12,890
Co-operative apartments	-	1,695	-	3,762
Construction	300	1,788	997	1,788
Small Business Administration	225	210	578	378
Taxi Medallion	1,889	-	13,538	-
Commercial business and other	48,542	70,361	143,498	128,701
Total	\$ 191,191	\$ 251,682	\$ 389,173	\$ 373,068

(1) Includes purchases of \$1.2 million for the three months ended June 30, 2014.

(2) Includes purchases of \$12.9 million and \$0.5 million for the six months ended June 30, 2014 and 2013, respectively.

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The Bank continues to maintain conservative underwriting standards that include, among other things, a loan-to-value ratio of 75% or less and a debt coverage ratio of at least 125%. Multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans originated during the second quarter of 2014 had an average loan-to-value ratio of 46.7% and an average debt coverage ratio of 401%.

The Bank’s non-performing assets totaled \$47.1 million at June 30, 2014, a decrease of \$6.7 million from \$53.8 million at December 31, 2013. Total non-performing assets as a percentage of total assets were 0.97% at June 30, 2014 compared to 1.14% at December 31, 2013. The ratio of allowance for loan losses to total non-performing loans was 63.8% at June 30, 2014 and 64.9% at December 31, 2013. See – “TROUBLED DEBT RESTRUCTURED AND NON-PERFORMING ASSETS.”

During the six months ended June 30, 2014, mortgage-backed securities increased \$14.4 million, or 1.9%, to \$770.5 million from \$756.2 million at December 31, 2013. The increase in mortgage-backed securities during the six months ended June 30, 2014 was primarily due to purchases of \$47.5 million and an improvement of \$14.4 million in the fair value of mortgage-backed securities, partially offset by principal repayments totaling \$46.2 million.

During the six months ended June 30, 2014, other securities increased \$26.5 million, or 10.1%, to \$288.1 million from \$261.6 million at December 31, 2013. The increase in other securities during the six months ended June 30, 2014 was primarily due to purchases of \$23.3 million and an improvement in the fair value of other securities totaling \$7.0 million, partially offset by \$1.9 million in sales and \$1.0 million in maturities. Other securities primarily consist of securities issued by mutual or bond funds that invest in government and government agency securities, municipal bonds and corporate bonds.

Banking regulators issued the Volcker Rule in December 2013. The Volcker Rule, among other things, prohibits banks from owning certain investment securities. We have reviewed our investment portfolio for compliance with the Volcker Rule and in the opinion of management we do not own any securities which are prohibited under the Volcker Rule.

**Liabilities.** Total liabilities were \$4,393.3 million at June 30, 2014, an increase of \$104.3 million, or 2.4%, from \$4,289.0 million at December 31, 2013. During the six months ended June 30, 2014, due to depositors decreased \$2.0 million, or 0.1%, to \$3,198.0 million, as a result of a \$40.9 million decrease in core deposits partially offset by a \$38.9 million increase in certificates of deposit. Borrowed funds increased \$100.1 million during the six months ended June 30, 2014. The decrease in core deposits was a result of a seasonal decrease in deposits from public entities. We expect these deposits to return in the third and fourth quarters. Short term borrowings were obtained at similar rates to replace the government deposits.

**Equity.** Total stockholders’ equity increased \$28.0 million, or 6.5%, to \$460.5 million at June 30, 2014 from \$432.5 million at December 31, 2013. Stockholders’ equity increased primarily due to net income of \$22.0 million for the six months ended June 30, 2014, an increase in comprehensive income of \$12.0 million primarily due to an increase in the fair value of the securities portfolio and \$1.9 million due to the issuance of shares from the annual funding of certain employee retirement plans through the release of common shares from the Employee Benefit Trust. Additionally, the exercise of stock options increased stockholders’ equity by \$0.5 million, including the income tax benefit realized by the Company upon the exercise of the options. These increases were partially offset by the declaration and payment of dividends on the Company’s common stock of \$9.0 million and the purchase of 108,120 treasury shares at a cost of \$2.1 million. Book value per common share was \$15.26 at June 30, 2014 compared to \$14.36 at December 31, 2013.

On May 22, 2013, the Company announced the authorization by the Board of Directors of a new common stock repurchase program, which authorizes the purchase of up to 1,000,000 shares of its common stock. During the six months ended June 30, 2014, the Company repurchased 108,120 shares of the Company’s common stock at an average cost of \$19.82 per share. At June 30, 2014, 441,750 shares remain to be repurchased under the current stock repurchase program. Stock will be purchased under the current stock repurchase program from time to time, in the open market or through private transactions subject to market conditions and at the discretion of the management of the Company. There is no expiration or maximum dollar amount under this authorization.

**Cash flow.** During the six months ended June 30, 2014, funds provided by the Company’s operating activities amounted to \$31.4 million. These funds combined with \$94.3 million provided from financing activities were utilized to fund net investing activities of \$122.2 million. The Company’s primary business objective is the origination and purchase of multi-family residential properties and commercial business loans and to a lesser extent one-to-four family (including mixed-use properties), commercial real estate mortgage loans and SBA loans. During the six months ended June 30, 2014, the net total of loan originations and purchases less loan repayments and sales was \$96.5 million. During the six months ended June 30, 2014, the Company also funded \$70.9 million in purchases of securities available for sale and repaid \$9.3 million in long-term borrowed funds. During the six months ended June 30, 2014, funds were provided by net increases of \$5.7 million in total deposits and \$109.0 million in short-term borrowed funds. Additionally, funds were provided by \$49.4 million in proceeds from maturities, sales, calls and prepayments of securities available for sale. The Company also used funds of \$9.0 million and \$3.3 million for dividend payments and purchases of treasury stock, respectively, during the six months ended June 30, 2014.

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**INTEREST RATE RISK**

The Consolidated Statements of Financial Position have been prepared in accordance with generally accepted accounting principles in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in fair value of certain investments due to changes in interest rates. Generally, the fair value of financial investments such as loans and securities fluctuates inversely with changes in interest rates. As a result, increases in interest rates could result in decreases in the fair value of the Company’s interest-earning assets which could adversely affect the Company’s results of operations if such assets were sold, or, in the case of securities classified as available-for-sale, decreases in the Company’s stockholders’ equity, if such securities were retained.

The Company manages the mix of interest-earning assets and interest-bearing liabilities on a continuous basis to maximize return and adjust its exposure to interest rate risk. On a quarterly basis, management prepares the “Earnings and Economic Exposure to Changes in Interest Rate” report for review by the Board of Directors, as summarized below. This report quantifies the potential changes in net interest income and net portfolio value should interest rates go up or down (shocked) 200 basis points, assuming the yield curves of the rate shocks will be parallel to each other. The Company’s regulators currently place focus on the net portfolio value, focusing on a rate shock up or down of 200 basis points. Net portfolio value is defined as the market value of assets net of the market value of liabilities. The market value of assets and liabilities is determined using a discounted cash flow calculation. The net portfolio value ratio is the ratio of the net portfolio value to the market value of assets. All changes in income and value are measured as percentage changes from the projected net interest income and net portfolio value at the base interest rate scenario. The base interest rate scenario assumes interest rates at June 30, 2014. Various estimates regarding prepayment assumptions are made at each level of rate shock. However, prepayment penalty income is excluded from this analysis. Actual results could differ significantly from these estimates. At June 30, 2014, the Company was within the guidelines set forth by the Board of Directors for each interest rate level.

The following table presents the Company’s interest rate shock as of June 30, 2014:

Change in Interest Rate	Projected Percentage Change In		
	Net Interest Income	Net Portfolio Value	Net Portfolio Value Ratio
-200 Basis points	-2.20%	9.23%	13.66%
-100 Basis points	0.95	7.33	13.61
Base interest rate	0.00	0.00	12.99
+100 Basis points	-5.35	-13.22	11.65
+200 Basis points	-11.09	-27.68	10.05



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**AVERAGE BALANCES**

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends upon the relative amount of interest-earning assets and interest-bearing liabilities and the interest rate earned or paid on them. The following table sets forth certain information relating to the Company’s Consolidated Statements of Financial Condition and Consolidated Statements of Income for the three months ended June 30, 2014 and 2013, and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods shown. Average balances are derived from average daily balances. The yields include amortizations of fees which are considered adjustments to yields.

	For the three months ended June 30,					
	2014			2013		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
<b>Assets</b>	<i>(Dollars in thousands)</i>					
Interest-earning assets:						
Mortgage loans, net (1)	\$ 3,039,477	38,330	5.04%	\$ 2,883,200	39,816	5.52%
Other loans, net (1)	446,457	4,159	3.73	306,203	3,045	3.98
Total loans, net	<u>3,485,934</u>	<u>42,489</u>	<u>4.88</u>	<u>3,189,403</u>	<u>42,861</u>	<u>5.38</u>
Mortgage-backed securities	769,474	5,320	2.77	794,233	5,868	2.96
Other securities	283,200	1,742	2.46	243,983	1,542	2.53
Total securities	<u>1,052,674</u>	<u>7,062</u>	<u>2.68</u>	<u>1,038,216</u>	<u>7,410</u>	<u>2.85</u>
Interest-earning deposits and federal funds sold	40,156	18	0.18	49,215	24	0.20
Total interest-earning assets	<u>4,578,764</u>	<u>49,569</u>	<u>4.33</u>	<u>4,276,834</u>	<u>50,295</u>	<u>4.70</u>
Other assets	254,274			260,411		
Total assets	<u>\$ 4,833,038</u>			<u>\$ 4,537,245</u>		
<b>Liabilities and Equity</b>						
Interest-bearing liabilities:						
Deposits:						
Savings accounts	\$ 258,659	116	0.18	\$ 276,570	128	0.19
NOW accounts	1,458,612	1,586	0.43	1,337,479	1,789	0.54
Money market accounts	216,394	126	0.23	184,422	73	0.16
Certificate of deposit accounts	1,153,010	5,810	2.02	1,143,992	6,095	2.13
Total due to depositors	<u>3,086,675</u>	<u>7,638</u>	<u>0.99</u>	<u>2,942,463</u>	<u>8,085</u>	<u>1.10</u>
Mortgagors' escrow accounts	57,213	32	0.22	55,795	8	0.06
Total deposits	<u>3,143,888</u>	<u>7,670</u>	<u>0.98</u>	<u>2,998,258</u>	<u>8,093</u>	<u>1.08</u>
Borrowed funds	997,174	5,070	2.03	896,025	4,906	2.19
Total interest-bearing liabilities	<u>4,141,062</u>	<u>12,740</u>	<u>1.23</u>	<u>3,894,283</u>	<u>12,999</u>	<u>1.34</u>
Non interest-bearing deposits	202,809			164,327		
Other liabilities	37,038			40,527		
Total liabilities	<u>4,380,909</u>			<u>4,099,137</u>		
Equity	452,129			438,108		
Total liabilities and equity	<u>\$ 4,833,038</u>			<u>\$ 4,537,245</u>		
Net interest income / net interest rate spread		<u>\$ 36,829</u>	<u>3.10%</u>		<u>\$ 37,296</u>	<u>3.36%</u>
Net interest-earning assets / net interest margin	<u>\$ 437,702</u>		<u>3.22%</u>	<u>\$ 382,551</u>		<u>3.49%</u>
Ratio of interest-earning assets to interest-bearing liabilities			<u>1.11X</u>			<u>1.10X</u>

(1) Loan interest income includes loan fee income (which includes net amortization of deferred fees and costs, late charges, and prepayment penalties) of approximately \$1.1 million for each of the three months ended June 30, 2014 and 2013, respectively.

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The following table sets forth certain information relating to the Company’s Consolidated Statements of Financial Condition and Consolidated Statements of Income for the six months ended June 30, 2014 and 2013, and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods shown. Average balances are derived from average daily balances. The yields include amortization of fees which are considered adjustments to yields.

	For the six months ended June 30,					
	2014			2013		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
<b>Assets</b>	<i>(Dollars in thousands)</i>					
Interest-earning assets:						
Mortgage loans, net (1)	\$ 3,015,208	76,912	5.10%	\$ 2,882,614	79,563	5.52%
Other loans, net (1)	423,678	7,697	3.63	305,458	6,238	4.08
Total loans, net	<u>3,438,886</u>	<u>84,609</u>	<u>4.92</u>	<u>3,188,072</u>	<u>85,801</u>	<u>5.38</u>
Mortgage-backed securities	769,693	10,710	2.78	751,841	11,589	3.08
Other securities	276,663	3,416	2.47	232,148	2,950	2.54
Total securities	<u>1,046,356</u>	<u>14,126</u>	<u>2.70</u>	<u>983,989</u>	<u>14,539</u>	<u>2.96</u>
Interest-earning deposits and federal funds sold	47,316	45	0.19	44,123	41	0.19
Total interest-earning assets	<u>4,532,558</u>	<u>98,780</u>	<u>4.36</u>	<u>4,216,184</u>	<u>100,381</u>	<u>4.76</u>
Other assets	253,044			266,078		
Total assets	<u>\$ 4,785,602</u>			<u>\$ 4,482,262</u>		
<b>Liabilities and Equity</b>						
Interest-bearing liabilities:						
Deposits:						
Savings accounts	\$ 261,161	235	0.18	280,753	263	0.19
NOW accounts	1,465,276	3,279	0.45	1,261,541	3,371	0.53
Money market accounts	206,976	233	0.23	164,027	127	0.15
Certificate of deposit accounts	1,131,494	11,596	2.05	1,185,284	12,606	2.13
Total due to depositors	<u>3,064,907</u>	<u>15,343</u>	<u>1.00</u>	<u>2,891,605</u>	<u>16,367</u>	<u>1.13</u>
Mortgagors' escrow accounts	50,293	45	0.18	49,005	17	0.07
Total deposits	<u>3,115,200</u>	<u>15,388</u>	<u>0.99</u>	<u>2,940,610</u>	<u>16,384</u>	<u>1.11</u>
Borrowed funds	990,557	10,076	2.03	904,614	12,555	2.78
Total interest-bearing liabilities	<u>4,105,757</u>	<u>25,464</u>	<u>1.24</u>	<u>3,845,224</u>	<u>28,939</u>	<u>1.51</u>
Non interest-bearing deposits	196,285			156,386		
Other liabilities	37,250			40,882		
Total liabilities	<u>4,339,292</u>			<u>4,042,492</u>		
Equity	446,310			439,770		
Total liabilities and equity	<u>\$ 4,785,602</u>			<u>\$ 4,482,262</u>		
Net interest income / net interest rate spread		<u>\$ 73,316</u>	<u>3.12%</u>		<u>\$ 71,442</u>	<u>3.25%</u>
Net interest-earning assets / net interest margin	<u>\$ 426,801</u>		<u>3.24%</u>	<u>\$ 370,960</u>		<u>3.39%</u>
Ratio of interest-earning assets to interest-bearing liabilities			<u>1.10X</u>			<u>1.10X</u>

(1) Loan interest income includes loan fee income (which includes net amortization of deferred fees and costs, late charges, and prepayment penalties) of approximately \$2.2 million and \$1.8 million for the six months ended June 30, 2014 and 2013, respectively.

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**LOANS**

The following table sets forth the Company’s loan originations (including the net effect of refinancing) and the changes in the Company’s portfolio of loans, including purchases, sales and principal reductions for the periods indicated.

<i>(In thousands)</i>	<u>For the six months ended June 30,</u>	
	2014	2013
<b><u>Mortgage Loans</u></b>		
At beginning of period	\$ 3,028,452	\$ 2,906,881
Mortgage loans originated:		
Multi-family residential	165,009	175,217
Commercial real estate	31,621	38,146
One-to-four family – mixed-use property	18,428	11,734
One-to-four family – residential	15,504	12,890
Co-operative apartments	-	3,762
Construction	997	1,788
Total mortgage loans originated	<u>231,559</u>	<u>243,537</u>
Mortgage loans purchased:		
Commercial real estate	-	452
Total mortgage loans purchased	<u>-</u>	<u>452</u>
Less:		
Principal and other reductions	171,029	185,612
Sales	5,943	9,748
At end of period	<u>\$ 3,083,039</u>	<u>\$ 2,955,510</u>
<b><u>Commercial Business and Other Loans</u></b>		
At beginning of period	\$ 394,556	\$ 314,494
Other loans originated:		
Small Business Administration	578	378
Commercial business	142,170	125,489
Taxi medallion	654	-
Other	1,328	3,212
Total other loans originated	<u>144,730</u>	<u>129,079</u>
Other loans purchased:		
Taxi medallion	12,884	-
Total other loans purchased	<u>12,884</u>	<u>-</u>
Less:		
Principal and other reductions	113,483	122,997
Sales	-	-
At end of period	<u>\$ 438,687</u>	<u>\$ 320,576</u>

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**TROUBLED DEBT RESTRUCTURED (“TDR”) AND NON-PERFORMING ASSETS**

Management continues to adhere to the Bank’s conservative underwriting standards. The majority of the Bank’s non-performing loans are collateralized by residential income producing properties that are occupied, thereby retaining more of their value and reducing the potential loss. The Bank takes a proactive approach to managing delinquent loans, including conducting site examinations and encouraging borrowers to meet with a Bank representative. The Bank has been developing short-term payment plans that enable certain borrowers to bring their loans current. The Bank reviews its delinquencies on a loan by loan basis and continually explores ways to help borrowers meet their obligations and return them back to current status. At times, the Bank may restructure a loan to enable a borrower to continue making payments when it is deemed to be in the best long-term interest of the Bank. This restructure may include making concessions to the borrower that the Bank would not make in the normal course of business, such as reducing the interest rate until the next reset date, extending the amortization period thereby lowering the monthly payments, or changing the loan to interest only payments for a limited time period. At times, certain problem loans have been restructured by combining more than one of these options. The Bank believes that restructuring these loans in this manner will allow certain borrowers to become and remain current on their loans. The Bank classifies these loans as TDR. Loans which have been current for six consecutive months at the time they are restructured as TDR remain on accrual status. Loans which were delinquent at the time they are restructured as a TDR are placed on non-accrual status until they have made timely payments for six consecutive months. Loans that are restructured as TDR but are not performing in accordance with the restructured terms are excluded from the TDR table below, as they are placed on non-accrual status and reported as non-performing loans.

The following table shows loans classified as TDR that are performing according to their restructured terms at the periods indicated:

<i>(In thousands)</i>	June 30, 2014	March 31, 2014	December 31, 2013
<b>Accrual Status:</b>			
Multi-family residential	\$ 3,061	\$ 3,074	\$ 3,087
Commercial real estate	2,389	2,398	2,407
One-to-four family - mixed-use property	2,022	2,288	2,297
One-to-four family - residential	359	362	364
Construction	-	-	442
Commercial business and other	2,329	2,367	4,406
<b>Total</b>	<b>10,160</b>	<b>10,489</b>	<b>13,003</b>
<b>Non-accrual status:</b>			
One-to-four family - mixed-use property	380	382	383
<b>Total</b>	<b>380</b>	<b>382</b>	<b>383</b>
<b>Total performing troubled debt restructured</b>	<b>\$ 10,540</b>	<b>\$ 10,871</b>	<b>\$ 13,386</b>

During the six months ended June 30, 2014, two TDR loans totaling \$2.4 million were transferred to non-performing status when they became over 90 days past maturity, which resulted in these loans being included in non-performing loans. These loans were paid in full during the quarter ended June 30, 2014. During the six months ended June 30, 2014, one additional TDR loan for \$0.2 million was transferred to non-performing status when it became 90 days past due as to payments.

Interest income on loans is recognized on the accrual basis. The accrual of income on loans is discontinued when certain factors, such as contractual delinquency of 90 days or more, indicate reasonable doubt as to the timely collectability of such income. Additionally, uncollected interest previously recognized on non-accrual loans is reversed from interest income at the time the loan is placed on non-accrual status. Loans in default 90 days or more, as to their maturity date but not their payments, continue to accrue interest as long as the borrower continues to remit monthly payments.

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The following table shows non-performing assets, including Loans held for sale, at the periods indicated:

<i>(In thousands)</i>	June 30, 2014	March 31, 2014	December 31, 2013
<b>Loans 90 days or more past due and still accruing:</b>			
Multi-family residential	\$ 987	\$ 188	\$ 52
Commercial real estate	266	793	-
One-to-four family - mixed-use property	1,303	874	-
One-to-four family - residential	14	15	15
Construction	-	1,012	-
Commercial business and other	410	2,490	539
Total	<u>2,980</u>	<u>5,372</u>	<u>606</u>
<b>Non-accrual loans:</b>			
Multi-family residential	10,861	12,062	13,682
Commercial real estate	9,761	8,769	9,962
One-to-four family - mixed-use property	8,713	7,977	9,063
One-to-four family - residential	11,346	12,208	13,250
Co-operative apartments	-	-	57
Commercial business and other	2,130	2,165	2,348
Total	<u>42,811</u>	<u>43,181</u>	<u>48,362</u>
<b>Total non-performing loans</b>	<u>45,791</u>	<u>48,553</u>	<u>48,968</u>
<b>Other non-performing assets:</b>			
Real estate acquired through foreclosure	1,346	1,700	2,985
Investment securities	-	-	1,871
Total	<u>1,346</u>	<u>1,700</u>	<u>4,856</u>
<b>Total non-performing assets</b>	<u>\$ 47,137</u>	<u>\$ 50,253</u>	<u>\$ 53,824</u>

Included in loans over 90 days past due and still accruing were 11 loans totaling \$3.0 million, 13 loans totaling \$5.4 million and six loans totaling \$0.6 million at June 30, 2014, March 31, 2014 and December 31, 2013, respectively. These loans are all past their respective maturity dates and are still remitting payments. The Bank is actively working with these borrowers to extend the maturity of or repay these loans.

Included in non-performing loans were two loans totaling \$2.4 million, three loans totaling \$4.7 million and one loan for \$2.3 million which were restructured as TDR and not performing in accordance with their restructured terms at June 30, 2014, March 31, 2014 and December 31, 2013, respectively.

Hurricane Sandy caused significant damage to numerous homes and businesses throughout the New York Metropolitan area. In working with its borrowers and depositors affected by this hurricane, the Bank had entered into payment agreements on 30 loans totaling \$18.9 million. These agreements originally provided for partial payment deferrals, generally for 90 days, but some agreements provide for longer deferral periods. These agreements were intended to provide the borrowers the opportunity to fully assess any damage to the properties, apply for and receive insurance proceeds, and repair damages to the properties. At June 30, 2014, eight loans totaling \$4.9 million remain under these agreements, of which seven loans totaling \$4.6 million are considered non-performing and we have placed them on non-accrual status until they reestablish a payment history and bring the loans current. Eight loans are current under their repayment plans and have had their agreements extended into 2014 to give the borrowers additional time to recover. Each borrower was required, commencing at the end of the deferral period, to make their regularly scheduled loan payments plus a portion of the deferred amounts. As of June 30, 2014, the Bank has not incurred, and does not expect to incur, any losses related to these agreements.

The Bank’s non-performing assets totaled \$47.1 million at June 30, 2014, a decrease of \$3.1 million from \$50.3 million at March 31, 2014 and a decrease of \$6.7 million from \$53.8 million at December 31, 2013. Total non-performing assets as a percentage of total assets were 0.97% at June 30, 2014, 1.04% at March 31, 2014 and 1.14% at December 31, 2013. The ratio of allowance for loan losses to total non-performing loans was 63.8% at June 30, 2014, 62.3% at March 31, 2014 and 64.9% at December 31, 2013.

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During the three months ended June 30, 2014, 18 loans totaling \$5.3 million were added to non-accrual loans, 12 loans totaling \$2.5 million were returned to performing status, seven loans totaling \$1.3 million were paid in full, three loans totaling \$0.9 million were sold, two loans totaling \$0.4 million was transferred to other real estate owned, and charge-offs of \$0.3 million were recorded on non-accrual loans that were non-accrual at the beginning of the second quarter of 2014.

At December 31, 2013, non-accrual investment securities included one pooled trust preferred security with a carrying amount of \$1.9 million for which we were not receiving payments. During the six months ended June 30, 2014, the Company sold the one non-accrual trust preferred security for total proceeds of \$2.1 million.

The following table shows our delinquent loans that are less than 90 days past due still accruing interest and considered performing at the periods indicated:

	June 30, 2014		December 31, 2013	
	60 - 89 days	30 - 59 days	60 - 89 days	30 - 59 days
	<i>(In thousands)</i>			
Multi-family residential	\$ 1,325	\$ 12,222	\$ 2,555	\$ 14,102
Commercial real estate	-	8,615	523	5,029
One-to-four family - mixed-use property	718	13,022	1,099	14,017
One-to-four family - residential	472	2,363	517	3,927
Co-operative apartments	-	-	-	-
Construction loans	-	-	-	-
Small Business Administration	-	108	-	105
Taxi medallion	-	-	-	-
Commercial business and other	-	51	2	187
Total delinquent loans	\$ 2,515	\$ 36,381	\$ 4,696	\$ 37,367

**CRITICIZED AND CLASSIFIED ASSETS**

Our policy is to review our assets, focusing primarily on the loan portfolio, OREO and the investment portfolios, to ensure that the credit quality is maintained at the highest levels. When weaknesses are identified, immediate action is taken to correct the problem through direct contact with the borrower or issuer. We then monitor these assets, and, in accordance with our policy and current regulatory guidelines, we designate them as “Special Mention,” which is considered a “Criticized Asset,” and “Substandard,” “Doubtful,” or “Loss” which are considered “Classified Assets,” as deemed necessary. These asset designations are updated quarterly. We designate an asset as Substandard when a well-defined weakness is identified that jeopardizes the orderly liquidation of the debt. We designate an asset as Doubtful when it displays the inherent weakness of a Substandard asset with the added provision that collection of the debt in full, on the basis of existing facts, is highly improbable. We designate an asset as Loss if it is deemed the debtor is incapable of repayment. We do not hold any loans designated as loss, as loans that are designated as Loss are charged to the Allowance for Loan Losses. Assets that are non-accrual are designated as Substandard or Doubtful. We designate an asset as Special Mention if the asset does not warrant designation within one of the other categories, but does contain a potential weakness that deserves closer attention. Our total Criticized and Classified assets were \$110.2 million at June 30, 2014, a decrease of \$20.0 million from \$130.2 million at December 31, 2013.

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The following table sets forth the Bank’s assets designated as Criticized and Classified at June 30, 2014:

<i>(In thousands)</i>	Special Mention	Substandard	Doubtful	Loss	Total
<b>Loans:</b>					
Multi-family residential	\$ 9,622	\$ 15,905	\$ 1,647	\$ -	\$ 27,174
Commercial real estate	10,626	14,339	-	-	24,965
One-to-four family - mixed-use property	4,438	14,682	-	-	19,120
One-to-four family - residential	2,869	13,146	-	-	16,015
Co-operative apartments	-	-	-	-	-
Construction loans	-	570	-	-	570
Small Business Administration	301	-	-	-	301
Commercial business and other	5,262	6,145	50	-	11,457
Total loans	<u>33,118</u>	<u>64,787</u>	<u>1,697</u>	<u>-</u>	<u>99,602</u>
<b>Investment Securities: <sup>(1)</sup></b>					
Pooled trust preferred securities	-	9,262	-	-	9,262
Total investment securities	<u>-</u>	<u>9,262</u>	<u>-</u>	<u>-</u>	<u>9,262</u>
<b>Other Real Estate Owned</b>					
	-	1,346	-	-	1,346
Total	<u>\$ 33,118</u>	<u>\$ 75,395</u>	<u>\$ 1,697</u>	<u>\$ -</u>	<u>\$ 110,210</u>

The following table sets forth the Bank’s assets designated as Criticized and Classified at December 31, 2013:

<i>(In thousands)</i>	Special Mention	Substandard	Doubtful	Loss	Total
<b>Loans:</b>					
Multi-family residential	\$ 9,940	\$ 19,089	\$ -	\$ -	\$ 29,029
Commercial real estate	13,503	16,820	-	-	30,323
One-to-four family - mixed-use property	7,992	14,898	-	-	22,890
One-to-four family - residential	2,848	14,026	-	-	16,874
Co-operative apartments	-	59	-	-	59
Construction loans	746	-	-	-	746
Small Business Administration	310	-	-	-	310
Commercial business and other	7,314	8,450	50	-	15,814
Total loans	<u>42,653</u>	<u>73,342</u>	<u>50</u>	<u>-</u>	<u>116,045</u>
<b>Investment Securities: <sup>(1)</sup></b>					
Pooled trust preferred securities	-	11,134	-	-	11,134
Total investment securities	<u>-</u>	<u>11,134</u>	<u>-</u>	<u>-</u>	<u>11,134</u>
<b>Other Real Estate Owned</b>					
	-	2,985	-	-	2,985
Total	<u>\$ 42,653</u>	<u>\$ 87,461</u>	<u>\$ 50</u>	<u>\$ -</u>	<u>\$ 130,164</u>

(1) Our investment securities are classified as securities available for sale and as such are carried at their fair value in our Consolidated Financial Statements. The securities above had a fair value of \$6.3 million and \$7.9 million at June 30, 2014 and December 31, 2013, respectively. Under current applicable regulatory guidelines, we are required to disclose the classified investment securities, as shown in the tables above, at their book values (amortized cost, or fair value for securities that are under the fair value option). Additionally, the requirement is only for the Bank’s securities. Flushing Financial Corporation did not have any securities classified or criticized at June 30, 2014 and December 31, 2013.

On a quarterly basis all collateral dependent loans that are classified as Substandard or Doubtful are internally reviewed for impairment, based on updated cash flows for income producing properties, or updated independent appraisals. The loan balances of collateral dependent loans reviewed for impairment are then compared to the loans updated fair value. We consider fair value of collateral dependent loans to be 85% of the appraised or internally estimated value of the property. The balance which exceeds fair value is generally charged-off against the allowance for loan losses. At June 30, 2014, the current loan-to-value ratio on our collateral dependent loans reviewed for impairment was 46.1%.

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We classify investment securities as Substandard when, based on an internal review, we concluded the securities are below investment grade. We have designated a total of two investment securities that are held at the Bank as Substandard at June 30, 2014. Our classified investment securities at June 30, 2014 held by the Bank include two issues of pooled trust preferred securities. The Investment Securities which are classified as Substandard at June 30, 2014 are securities that were rated investment grade when we purchased them. These securities have each been subsequently downgraded by at least one rating agency to below investment grade. We test each of these securities quarterly for impairment, through an independent third party.

**ALLOWANCE FOR LOAN LOSSES**

We have established and maintain on our books an allowance for loan losses that is designed to provide a reserve against estimated losses inherent in our overall loan portfolio. The allowance is established through a provision for loan losses based on management’s evaluation of the risk inherent in the various components of the loan portfolio and other factors, including historical loan loss experience (which is updated quarterly), current economic conditions, delinquency and non-accrual trends, classified loan levels, risk in the portfolio and volumes and trends in loan types, recent trends in charge-offs, changes in underwriting standards, experience, ability and depth of our lenders, collection policies and experience, internal loan review function and other external factors. Additionally, we segregated our loans into two portfolios based on year of origination. One portfolio was reviewed for loans originated after December 31, 2009 and a second portfolio for loans originated prior to January 1, 2010. Our decision to segregate the portfolio based upon origination dates was based on changes made in our underwriting standards during 2009. By the end of 2009, all loans were being underwritten based on revised and tightened underwriting standards. Loans originated prior to 2010 have a higher delinquency rate and loss history. Each of the years in the portfolio for loans originated prior to 2010 have a similar delinquency rate. The determination of the amount of the allowance for loan losses includes estimates that are susceptible to significant changes due to changes in appraisal values of collateral, national and local economic conditions and other factors. We review our loan portfolio by separate categories with similar risk and collateral characteristics. Impaired loans are segregated and reviewed separately. All non-accrual loans are classified as impaired. Impaired loans secured by collateral are reviewed based on the fair value of their collateral. For non-collateralized impaired loans, management estimates any recoveries that are anticipated for each loan. In connection with the determination of the allowance, the market value of collateral is generally evaluated by our staff appraiser. On a quarterly basis, the estimated values of impaired collateral dependent loans are internally reviewed, based on updated cash flows for income producing properties, and at times an updated independent appraisal is obtained. The loan balances of collateral dependent impaired loans are then compared to the property’s updated fair value. We consider fair value of collateral dependent loans to be 85% of the appraised or internally estimated value of the property. The balance which exceeds fair value is generally charged-off. When evaluating a loan for impairment, we do not rely on guarantees, and the amount of impairment, if any, is based on the fair value of the collateral. We do not carry loans at a value in excess of the fair value due to a guarantee from the borrower. Impaired collateral dependent loans that were written down resulted from quarterly reviews or updated appraisals that indicated the properties’ estimated value had declined from when the loan was originated. The Board of Directors reviews and approves the adequacy of the allowance for loan losses on a quarterly basis.

In assessing the adequacy of the allowance for loan losses, we review our loan portfolio by separate categories which have similar risk and collateral characteristics, e.g., multi-family residential, commercial real estate, one-to-four family mixed-use property, one-to-four family residential, co-operative apartment, construction, SBA, commercial business, taxi medallion and consumer loans. General provisions are established against performing loans in our portfolio in amounts deemed prudent based on our qualitative analysis of the factors, including the historical loss experience, delinquency trends and local economic conditions. We experienced total net recoveries of \$0.1 million during the three months ended June 30, 2014, compared to total net charge-offs of \$2.2 million during the three months ended June 30, 2013. Non-performing loans totaled \$45.8 million and \$73.9 million at June 30, 2014 and 2013, respectively. The Bank’s underwriting standards generally require a loan-to-value ratio of no more than 75% at the time the loan is originated. At June 30, 2014, the average loan-to-value ratio for our non-performing loans collateralized by real estate was 46.1%. A provision (benefit) for loan losses of (\$1.1 million) and \$3.5 million was recorded for the three months ended June 30, 2014 and 2013, respectively. Management has concluded, and the Board of Directors has concurred, that at June 30, 2014, the allowance for loan losses was sufficient to absorb losses inherent in our loan portfolio.



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The following table sets forth the activity in the Company’s allowance for loan losses for the periods indicated:

<i>(Dollars in thousands)</i>	For the six months ended June 30,	
	2014	2013
Balance at beginning of period	\$ 31,776	\$ 31,104
Provision (benefit) for loan losses	(2,211)	9,500
Loans charged-off:		
Multi-family residential	(674)	(2,749)
Commercial real estate	(86)	(734)
One-to-four family – mixed-use property	(258)	(3,135)
One-to-four family – residential	(79)	(691)
Co-operative apartments	-	(74)
Construction	-	(304)
Small Business Administration	(49)	(337)
Commercial business and other	(125)	(864)
Total loans charged-off	(1,271)	(8,888)
Recoveries:		
Multi-family residential	141	65
Commercial real estate	382	293
One-to-four family – mixed-use property	135	111
One-to-four family – residential	165	106
Co-operative apartments	7	4
Small Business Administration	61	60
Commercial business and other	50	-
Total recoveries	941	639
Net charge-offs	(330)	(8,249)
Balance at end of period	\$ 29,235	\$ 32,355
Ratio of net charge-offs during the period to average loans outstanding during the period	0.02%	0.52%
Ratio of allowance for loan losses to gross loans at end of period	0.83%	0.99%
Ratio of allowance for loan losses to non-performing assets at end of period	62.02%	40.06%
Ratio of allowance for loan losses to non-performing loans at end of period	63.84%	43.79%

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**Basel III**

In the summer of 2012, our primary federal regulators published two Notices of Proposed Rulemaking (“NPRs”) that would have substantially revised the risk-based capital requirements applicable to bank holding companies and depository institutions, including the Company and the Bank, compared to the then current U.S. risk-based capital rules, which are based on the international capital accords of the Basel Committee on Banking Supervision, which are generally referred to as “Basel I.”

During July 2013, our primary federal regulators issued revised NPRs that will revise and replace the agencies’ current capital rules. The NPRs include numerous revisions to the existing capital regulations, including, but not limited to, the following:

- Revises the definition of regulatory capital components and related calculations.
- Adds a new common equity tier 1 capital ratio.
- Increases the minimum tier 1 capital ratio requirement from four percent to six percent.
- Incorporates the revised regulatory capital requirements into the Prompt Corrective Action framework.
- Implements a new capital conservation buffer that would limit payment of capital distributions and certain discretionary bonus payments to executive officers and key risk takers if the banking organization does not hold certain amounts of common equity tier 1 capital in addition to those needed to meet its minimum risk-based capital requirements.
- Provides a transition period for several aspects of the proposed rule: the new minimum capital ratio requirements, the capital conservation buffer, and the regulatory capital adjustments and deductions.
- Increases capital requirements for past-due loans, high volatility commercial real estate exposures, and certain short-term loan commitments.
- Removes references to credit ratings consistent with Section 939A of the Dodd-Frank Act.
- Establishes due diligence requirements for securitization exposures.

The capital regulations would be effective January 1, 2015 for bank holding companies and banks with less than \$15 billion in total assets, such as our Company and Bank. Based on our preliminary assessment of the NPRs, we believe we will see an increase in our total risk-weighted assets. However, the Company and the Bank, based on our preliminary assessment, would meet the requirements of the NPRs and will continue to be considered well-capitalized.

**Volcker Rule**

On December 10, 2013, our primary federal regulators adopted Section 619 of the Dodd-Frank Act, commonly referred to as the “Volcker Rule,” which prohibits insured depository institutions from engaging in short-term proprietary trading of certain securities, derivatives and other financial instruments for the firm’s own account, subject to certain exemptions, including market making and risk-mitigating hedging. The Volcker Rule also imposes limits on banking entities’ investments in, and other relationships with, hedge funds and private equity funds.

The rule as adopted prohibited banking entities from owning collateralized debt obligations backed primarily by trust preferred securities (“TruPS CDOs”) after July 21, 2015. At June 30, 2014, the Company held TruPS CDOs with an amortized cost and market value totaling \$9.3 million and \$6.3 million, respectively.

On January 14, 2014, our primary federal regulators approved an interim final rule to permit banking entities to retain interests in certain TruPS CDOs from the investment prohibitions of Section 619 of the Dodd-Frank Act.

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Under the interim final rule, the agencies permit the retention of an interest in or sponsorship of covered funds by banking entities if the following qualifications are met:

- the TruPS CDO was established, and the interest was issued, before May 19, 2010;
- the banking entity reasonably believes that the offering proceeds received by the TruPS CDO were invested primarily in Qualifying TruPS Collateral; and
- the banking entity's interest in the TruPS CDO was acquired on or before December 10, 2013 .

The interim final rule defines Qualifying TruPS Collateral as any trust preferred security or subordinated debt instrument that was:

- issued prior to May 19, 2010, by a depository institution holding company that as of the end of any reporting period within 12 months immediately preceding the issuance of such trust preferred security or subordinated debt instrument had total consolidated assets of less than \$15 billion; or
- issued prior to May 19, 2010, by a mutual holding company.

As a result of the interim final rule, the Company determined that the TruPS CDOs it owns at June 30, 2014 are not prohibited by the Volcker Rule.

**PART I – FINANCIAL INFORMATION**  
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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

For a discussion of the qualitative and quantitative disclosures about market risk, see the information under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations - Interest Rate Risk."

**ITEM 4. CONTROLS AND PROCEDURES**

The Company carried out, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Quarterly Report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2014, the design and operation of these disclosure controls and procedures were effective. During the period covered by this Quarterly Report, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II – OTHER INFORMATION**  
**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

**ITEM 1. LEGAL PROCEEDINGS**

The Company is a defendant in various lawsuits. Management of the Company, after consultation with outside legal counsel, believes that the resolution of these various matters will not result in any material adverse effect on the Company's consolidated financial condition, results of operations and cash flows.

**ITEM 1A. RISK FACTORS**

There have been no material changes from the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The following table sets forth information regarding the shares of common stock repurchased by the Company during the three months ended June 30, 2014:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
April 1 to April 30, 2014	-	\$ -	-	521,750
May 1 to May 31, 2014	50,000	19.85	50,000	471,750
June 1 to June 30, 2014	30,000	19.85	30,000	441,750
Total	<u>80,000</u>	<u>\$ 19.85</u>	<u>80,000</u>	

During the year ended December 31, 2013, the Company completed the common stock repurchase program that was approved by the Company's Board of Directors on September 20, 2011. On May 22, 2013, the Company announced the authorization by the Board of Directors of a new common stock repurchase program, which authorizes the purchase of up to 1,000,000 shares of its common stock. During the three months ended June 30, 2014, the Company repurchased 80,000 shares of the Company's common stock at an average cost of \$19.85 per share. At June 30, 2014, 441,750 shares remain to be repurchased under the current stock repurchase program. Stock will be purchased under the current stock repurchase program from time to time, in the open market or through private transactions subject to market conditions and at the discretion of the management of the Company. There is no expiration or maximum dollar amount under this authorization.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

On August 7, 2014, the Board of Directors amended the Company's Bylaws to add a new section 5.04 adding an exclusive forum provision.

**PART II – OTHER INFORMATION**  
**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**

**ITEM 6. EXHIBITS**

<b>Exhibit No.</b>	<b>Description</b>
2.1	Agreement and Plan of Merger dated as of December 20, 2005 by and between Flushing Financial Corporation and Atlantic Liberty Financial Corp. (7)
3.1	Certificate of Incorporation of Flushing Financial Corporation (1)
3.2	Certificate of Amendment to Certificate of Incorporation of Flushing Financial Corporation (3)
3.3	Certificate of Amendment to Certificate of Incorporation of Flushing Financial Corporation (6)
3.4	Certificate of Designations of Series A Junior Participating Preferred Stock of Flushing Financial Corporation (4)
3.5	Certificate of Increase of Shares Designated as Series A Junior Participating Preferred Stock of Flushing Financial Corporation (2)
3.6	Amended and Restated By-Laws of Flushing Financial Corporation as of August 7, 2014 (filed herewith).
4.1	Rights Agreement, dated as of September 8, 2006, between Flushing Financial Corporation and Computershare Trust Company N.A., as Rights Agent, which includes the form of Certificate of Increase of Shares Designated as Series A Junior Participating Preferred Stock as Exhibit A, form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Stock as Exhibit C (5)
4.2	Flushing Financial Corporation has outstanding certain long-term debt. None of such debt exceeds ten percent of Flushing Financial Corporation's total assets; therefore, copies of constituent instruments defining the rights of the holders of such debt are not included as exhibits. Copies of instruments with respect to such long-term debt will be furnished to the Securities and Exchange Commission upon request.
10.1	Lease agreement between Flushing Bank and Rexcorp Plaza SPE LLC (filed herewith)
10.2	2014 Omnibus Incentive Plan (filed herewith)
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer (filed herewith)
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Financial Officer (filed herewith)
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 by the Chief Executive Officer (furnished herewith)
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 by the Chief Financial Officer (furnished herewith)
101.INS	XBRL Instance Document (filed herewith)
101.SCH	XBRL Taxonomy Extension Schema Document (filed herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (filed herewith)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (filed herewith)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith)
(1)	Incorporated by reference to Exhibits filed with the Registration Statement on Form S-1 filed September 1, 1995, Registration No. 33-96488.
(2)	Incorporated by reference to Exhibits filed with Form 8-K filed September 26, 2006.
(3)	Incorporated by reference to Exhibits filed with Form S-8 filed May 31, 2002.
(4)	Incorporated by reference to Exhibits filed with Form 10-Q for the quarter ended September 30, 2002.
(5)	Incorporated by reference to Exhibit filed with Form 8-K filed September 11, 2006.
(6)	Incorporated by reference to Exhibit filed with Form 10-K filed December 31, 2011.
(7)	Incorporated by reference to Exhibit filed with Form 8-K filed December 23, 2005.

**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**  
**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Flushing Financial Corporation,

Dated: August 11, 2014

By: /s/John R. Buran  
John R. Buran  
President and Chief Executive Officer

Dated: August 11, 2014

By: /s/David Fry  
David Fry  
Senior Executive Vice President, Treasurer and  
Chief Financial Officer

**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES**  
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## AMENDED AND RESTATED BY-LAWS

OF

FLUSHING FINANCIAL CORPORATION  
(A Delaware corporation)

## ARTICLE I

## STOCKHOLDERS

Section 1.01 Annual Meeting. The annual meeting of the stockholders, for the purpose of electing directors and transacting such other business as may come before it, shall be held on such date and at such time and place, either within or without the State of Delaware, as may be specified by the Board of Directors.

Section 1.02 Special Meetings. Subject to the rights of the holders of any class or series of preferred stock of the Corporation, special meetings of the stockholders for any purpose or purposes may be called solely by resolution of the Board of Directors, acting by not less than a majority of the Entire Board. The term "Entire Board" means the total number of directors the Corporation would have if there were no vacancies on the Board of Directors.

Any special meeting of the stockholders shall be held at such date, time and place as is specified by the Board of Directors. No business shall be transacted at a special meeting of the stockholders that is not stated in the notice of such meeting.

Section 1.03 Notice of Meetings. Written notice of each stockholders' meeting, stating the place, date and hour of the meeting and, in the case of a special meeting, the purpose or purposes thereof, shall be given to each stockholder entitled to vote at the meeting not less than ten nor more than sixty days before the date of the meeting.

Section 1.04 Quorum. Except as otherwise provided in the Certificate of Incorporation or by law, at any meeting of the stockholders a majority of the shares entitled to vote, present in person or represented by proxy, shall constitute a quorum.

Section 1.05 Conduct of Meetings. The Chairman of the Board shall preside at any meeting of the stockholders. In the absence of the Chairman, the President shall preside. In the absence of both persons, such other person as shall have been designated by the chief executive officer or the Board of Directors shall preside. The order of business at any meeting shall be as determined by the presiding officer.

The presiding officer shall have the power to prescribe such rules, regulations and procedures and to do all such things as in his judgment may be necessary or desirable for the proper conduct of the meeting, including, without limitation, the establishment of procedures for the maintenance of order and safety, limitations on the time allotted to questions or comments, restrictions on entry to the meeting after the time scheduled for the commencement thereof and the opening and closing of the voting polls.

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If present, the Secretary shall act as secretary of any meeting of the stockholders. In the Secretary's absence, such other person as the presiding officer shall designate shall act as secretary of the meeting.

It shall be the duty of the Secretary to prepare and make, at least ten days before every meeting of the stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

Section 1.06 Voting; Election of Directors. Unless otherwise provided in the Certificate of Incorporation, each stockholder represented at a meeting of stockholders shall be entitled to cast one vote for each share of the capital stock entitled to vote thereat held by such stockholder.

Except as provided in Section 2.08 hereof, directors shall be elected by a "majority of votes cast" (as defined herein) at the annual meeting of stockholders to hold office as provided by Section 2.02 hereof, unless the election is contested, in which case directors shall be elected by a plurality of votes cast. An election shall be contested if, as determined by the Board of Directors, the number of nominees exceeds the number of directors to be elected. For the purposes of this Section, a "majority of votes cast" means that the number of shares voted "for" a director exceeds the number of votes cast "against" that director. The following shall not be votes cast: (i) a share otherwise present at the meeting but for which there is an abstention and (ii) a share otherwise present at the meeting as to which a shareholder gives no authority or direction. Each director, including a director elected to fill a vacancy, shall hold office until his or her successor is elected and qualified or until his or her earlier death, resignation or removal. If a director in an uncontested election does not receive a majority of votes cast for his or her election, the director shall, within ten business days of certification of election results, submit to the Board of Directors a letter of resignation for consideration by the Governance and Nominating Committee. The Governance and Nominating Committee shall promptly assess the appropriateness of such nominee continuing to serve as a director and recommend to the Board the action to be taken with respect to such tendered resignation. The Board of Directors will determine whether to accept or reject such resignation, or what other action should be taken, within 90 days from the date of the certification of election results.

Unless otherwise required by law, the Certificate of Incorporation or these by-laws, any other corporate action shall be authorized by a majority of votes cast at the meeting by the holders of shares entitled to vote thereon.

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Section 1.07 Inspectors of Election. The Board of Directors shall, in advance of any meeting of stockholders, appoint one or more inspectors to act at the meeting and make a written report thereof. The Board of Directors may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of stockholders, the Chairman of the Board, or in his absence such person presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his ability.

Section 1.08 Record Date. For the purpose of determining the stockholders entitled to notice of or to vote at any meeting of the stockholders or any adjournment thereof, or entitled to receive payment or any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action.

Section 1.09 Advance Notice of Stockholder Nominees and Proposals. Subject to the rights of holders of any outstanding preferred stock, nominations for election of directors at an annual meeting or a special meeting called for the purpose of electing directors may be made either by the Board of Directors or by any stockholder of record entitled to vote for the election of directors who gives advance notice as hereafter provided.

Any such stockholder may nominate persons for election as directors only if written notice of such stockholder's intent to make such nomination is transmitted to, and received by, the Secretary of the Corporation at the principal place of business of the Corporation not later than (i) in the case of an annual meeting, not more than 90 days nor less than 60 days prior to the anniversary of the date of the immediately preceding annual meeting which was specified in the initial formal notice of such meeting (but if the date of the forthcoming annual meeting is more than 30 days after such anniversary date, such written notice will also be timely if received by the Secretary by the earlier of (x) the 10th day prior to the forthcoming meeting date and (y) the close of business on the 10th day following the date on which the Corporation first makes public disclosure of the meeting date) and (ii) in the case of a special meeting (provided that the Board of Directors has determined that directors shall be elected at such special meeting), the close of business on the 10th day following the date on which the Corporation first makes public disclosure of the meeting date. Each notice given by such stockholder shall set forth: (i) the name and address of the stockholder who intends to make the nomination and of the person or persons to be nominated; (ii) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote at such meeting (or if the record date for such meeting is subsequent to the date required for such stockholder notice, a representation that the stockholder is a holder of record at the time of such notice and intends to be a holder of record on the date for such meeting), and setting forth the class and number of shares so held (including shares held beneficially), (iii) a representation that such stockholder intends to appear in person or by proxy as a holder of record at the meeting to nominate the person or persons specified in the notice; (iv) a description of all arrangements or understanding between such stockholder and each nominee proposed by the stockholder and any other person or persons (identifying such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (v) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission; and (vi) the consent of each nominee to serve as a director of the Corporation if so elected.

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If the facts show that a nomination was not made in accordance with the foregoing provisions, the Chairman of the meeting shall so determine and declare to the meeting, whereupon the defective nomination shall be disregarded. Public disclosure of the date of a forthcoming meeting may be made by the Corporation for purposes of this Section 1.09 not only by the giving of the formal notice of the meeting but also (i) by notice to a national securities exchange or to the National Association of Securities Dealers, Inc. (if the Corporation's common stock is then listed on such exchange or quoted on NASDAQ), (ii) by filing a report under Section 13 or 15(d) of the Exchange Act (if the Corporation is then subject thereto) or (iii) by a mailing to stockholders or general press release.

All business properly brought before an annual meeting or a special meeting shall be transacted at such meeting. Business shall be deemed properly brought only if it is (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (ii) otherwise properly brought before the meeting by or at the direction of the Board of Directors or (iii) in the case of an annual meeting, (x) brought before the meeting by a stockholder of record present and entitled to vote at such meeting, (y) upon prior written notice transmitted to, and received by, the Secretary of the Corporation at the principal place of business of the Company not more than 90 days nor less than 60 days prior to the anniversary of the date of the immediately preceding annual meeting which was specified in the initial formal notice of such meeting (but if the date of the forthcoming annual meeting is more than 30 days after such anniversary date, such written notice will also be timely if received by the Secretary by the earlier of (1) the 10th day prior to the forthcoming meeting date and (2) the close of business on the 10th day following the date on which the Corporation first makes public disclosure of the meeting date) and, (z) each such notice given by such stockholder sets forth: (1) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting; (2) the name and address of the stockholder who intends to propose such business; (3) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote at such meeting (or if the record date for such meeting is subsequent to the date required for such stockholder notice, a representation that the stockholder is a holder of record at the time of such notice and intends to be a holder of record on the date of such meeting) and intends to appear in person or by proxy at such meeting to propose such business; and (4) any material interest of the stockholder in such business. The Chairman of the meeting may refuse to transact any business at any meeting made without compliance with the foregoing procedure.

Notwithstanding the foregoing provisions of this Section 1.09, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 1.09. Nothing in this Section 1.09 shall be deemed to affect any rights of the stockholders to request inclusion of proposals in the Company's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

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## ARTICLE II

### BOARD OF DIRECTORS

Section 2.01 Number. Except as otherwise provided in the Certificate of Incorporation, the number of directors shall be the number fixed from time to time by resolution adopted by a majority of the Entire Board or, in the case of the initial Board, the number fixed by the incorporator (subject to change as provided in this Section). No decrease in the number of authorized directors constituting the Board shall shorten the term of any incumbent director.

Section 2.02 Election and Term. At each annual meeting of the stockholders, directors shall be elected to hold office until their successors are elected and qualified or until their earlier resignation or removal as provided in the Certificate of Incorporation.

Section 2.03 Meetings of the Board. Regular meetings of the Board of Directors shall be held at such times and places as the Board shall determine. Special meetings of the Board shall be held whenever called by the Chairman of the Board, the President or by a majority of the directors in office at the time.

Section 2.04 Notice of Meetings. No notice need be given of any regular meeting of the Board of Directors or of any adjourned meeting of the Board. Nor need notice be given to any director who signs a written waiver thereof or who attends the meeting without protesting the lack of notice. Notices need not state the purpose of the meeting.

Notice of each special meeting of the Board shall be given to each director either by first class mail at least three days before the meeting or by telecopy, personal written delivery or telephone at least one day before the meeting. Any notice given by telephone shall be immediately confirmed by telecopy or personal written delivery. Notices are deemed to have been given: by mail, when deposited in the mail with postage prepaid; by telecopy, upon receipt of a transmittal confirmation; and by personal delivery or telephone, at the time of delivery. Written notices shall be sent to a director at the address designated by him for that purpose, or, if none has been so designated, at his last known residence or business address.

Section 2.05 Quorum and Vote of Directors. Except as otherwise provided in the Certificate of Incorporation or by law, a majority of the Entire Board of Directors shall constitute a quorum for the transaction of business or of any specified item of business and the vote of a majority of the directors present at a meeting at the time of such vote, if a quorum is then present, shall be the act of the Board.

Section 2.06 Conduct of Meetings. The Chairman of the Board, if any, shall preside at any meeting of the Board of Directors. In the absence of the Chairman of the Board, the President shall preside, and in both their absences a chairman of the meeting shall be elected from the directors present. If present, the Secretary shall act as secretary of any meeting of the Board. In the absence of the Secretary, the chairman of the meeting may appoint any person to act as secretary of the meeting.

Section 2.07 Resignations of Directors. Any director of the Corporation may resign at any time by giving written notice to the Board of Directors or to the secretary of the Corporation. Such resignation shall take effect at the time specified therein or, if such time is not specified therein, then upon receipt thereof; and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

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Section 2.08 Newly Created Directorships and Vacancies. Except as otherwise provided in the Certificate of Incorporation or by law, newly created directorships resulting from an increase in the number of directors and vacancies occurring in the Board of Directors for any reason may be filled by the affirmative vote of a majority of the directors then in office, although less than a quorum exists, or by a sole remaining director.

Section 2.09 Committees. The Board of Directors may, by resolution passed by a majority of the Entire Board designate one or more committees, each committee to consist of one or more of the directors of the Corporation.

The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint another member of the Board to act at the meeting in the place of any such absent or disqualified member.

Any such committee, to the extent provided in the resolution of the Board, but subject to the limitation of Section 141(c) of the Delaware General Corporation Law, shall have and may exercise all the powers and authority of the Board in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it.

The provisions of Section 2.04 for notice of meetings of the Board shall apply also to meetings of committees, unless different notice procedures shall be prescribed by the Board.

Each such committee shall serve at the pleasure of the Board. It shall keep minutes of its meetings and report the same to the Board and shall observe such other procedures as are prescribed by the Board.

Section 2.10 Compensation of Directors. Each director shall be entitled to receive as compensation for his services as director or committee member or for attendance at the meetings of the Board of Directors or committees, or both, such amounts (if any) as shall be fixed from time to time by the Board. Each director shall be entitled to reimbursement for reasonable traveling expenses incurred by him in attending any such meeting. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

Section 2.11 Telephonic Meetings. Any one or more members of the Board of Directors or any committee thereof may participate in a meeting of such Board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting by such means shall constitute presence in person at such meeting.

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Section 2.12 Action by Written Consent. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if all members of the Board or the committee consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the Board or committee.

### ARTICLE III

#### OFFICERS

Section 3.01 Officers. The officers of the Corporation shall include a Chairman of the Board, a President, a Treasurer and a Secretary and may also include a Vice Chairman of the Board, one or more Vice Presidents (who may be further classified by such descriptions as "executive," "senior" or "group" as determined by the Board of Directors), a Controller, Assistant Vice Presidents, Assistant Treasurers, Assistant Secretaries, Assistant Controllers and other officers and agents, as the Board of Directors may deem necessary or desirable.

Each officer shall have such authority and perform such duties, in addition to those specified in these By-Laws, as may be prescribed by the Board from time to time. The Board may from time to time authorize any officer to appoint and remove any other officer or agent and to prescribe such person's authority and duties. Any person may hold at one time two or more offices.

Section 3.02 Term of Office, Resignation and Removal. Each officer shall hold office for the term for which elected or appointed by the Board of Directors; and until the person's successor has been elected or appointed and qualified or until his earlier resignation or removal.

Any officer may resign at any time by giving written notice to the Board or to the Secretary of the Corporation. Such resignation shall take effect at the time specified therein or, if such time is not specified therein, then upon receipt thereof; and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Any officer may be removed by the Board, with or without cause. The election or appointment of an officer shall not of itself create contract rights.

Section 3.03 Chairman of the Board. The Chairman of the Board shall be a member of the Board of Directors. The Chairman of the Board shall preside at all meetings of the stockholders and the Board of Directors.

Section 3.04 President. Unless otherwise determined by the Board of Directors, the President shall be the chief executive officer of the Corporation. Subject to the control of the Board of Directors, the President shall be responsible for the day-to-day management of the business and affairs of the Corporation and shall enjoy all other powers commonly incident to the office.

Section 3.05 Vice Presidents. Each of the Vice Presidents shall have such authority and perform such duties as may be prescribed from time to time.

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Section 3.06 Treasurer and Assistant Treasurers. The Treasurer shall have the care and custody of all funds and securities of the Corporation, keep accounts of receipts and disbursements and of deposit or custody of moneys and other valuables and enjoy all powers commonly incident to the office.

In the case of the absence or inability to act of the Treasurer, any Assistant Treasurer may act in the Treasurer's place.

Section 3.07 Secretary and Assistant Secretaries. The secretary shall keep the minutes of the meetings of the stockholders and the Board of Directors and give notice of such meetings, have custody of the corporate seal and affix and attest such seal to any instrument to be executed under seal and enjoy all powers commonly incident to the office.

In the case of the absence or inability to act of the Secretary, any Assistant Secretary may act in the Secretary's place.

Section 3.08 Controller and Assistant Controllers. The Controller shall have control of all books of account of the Corporation (other than those to be kept by the Treasurer), render accounts of the financial condition of the Corporation and enjoy all powers commonly incident to the office.

In the absence or inability to act of the Controller, any Assistant Controller may act in the Controller's place.

Section 3.09 Compensation. Compensation of officers, agents and employees of the Corporation shall be fixed from time to time by, or under the authority of, the Board of Directors.

#### ARTICLE IV

#### CAPITAL STOCK

Section 4.01 Form of Certificates. Unless otherwise provided by resolution of the Board of Directors, the shares of stock of the Corporation shall be represented by certificates which shall be in such form as is prescribed by law and approved by the Board.

Section 4.02 Transfer of Shares. Transfers of shares of stock of the Corporation shall be registered on its records maintained for such purpose (i) upon surrender to the Corporation or a transfer agent of a certificate or certificates representing the shares requested to be transferred, with proper endorsement on the certificate or certificates or on a separate accompanying document, together with such evidence of the payment of transfer taxes and compliance with other provisions of law as the Corporation or its transfer agent may require or (ii) if shares are not represented by certificates, upon compliance with such transfer procedures as may be approved by the Board or prescribed by applicable law.

The Corporation shall be entitled to treat the holder of record of any share as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person whether or not it shall have express or other notice thereof, except as expressly provided by law.

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Section 4.03 Regulations. The Board of Directors shall have authority to make such rules and regulations as it may deem expedient concerning the issue, transfer and registration of shares of stock of the Corporation, including without limitation such rules and regulations as may be deemed expedient concerning the issue of certificates in lieu of certificates claimed to have been lost, destroyed, stolen or mutilated.

## ARTICLE V

### GENERAL PROVISIONS

Section 5.01 Corporate Seal. The Board of Directors may adopt a corporate seal, alter such seal at its pleasure, and authorize it to be used by causing it or a facsimile to be affixed or impressed or reproduced in any other manner.

Section 5.02 Voting Upon Stocks. Unless otherwise ordered by the Board of Directors, the chief executive officer of the Corporation, or any other officer of the Corporation designated by the chief executive officer of the Corporation, shall have full power and authority on behalf of the Corporation to attend and to act and to vote in person or by proxy at any meeting of the holders of securities of any corporation in which the Corporation may own or hold stock or other securities, and at any such meeting shall possess and may exercise in person or by proxy any and all rights, powers and privileges incident to the ownership of such stock or other securities which the Corporation, as the owner or holder thereof, might have possessed and exercised if present. The chief executive officer of the Corporation, or any other officer of the Corporation designated by the chief executive officer of the Corporation, may also execute and deliver on behalf of the Corporation powers of attorney, consents, proxies, waivers of notice and other instruments relating to the stocks or securities owned or held by the Corporation. The Board of Directors may, from time to time, by resolution confer like powers upon any other person or persons.

Section 5.03 Amendments. These By-Laws and any amendments hereof may be altered, amended, or repealed, and new By-Laws may be adopted, as provided in the Certificate of Incorporation.

Section 5.04. Forum for Adjudication of Disputes. Unless the Corporation consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Corporation, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director, officer, or other employee of the Corporation to the Corporation or the Corporation's stockholders, (iii) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law or the Corporation's Certificate of Incorporation or By-Laws, or (iv) any action asserting a claim governed by the internal affairs doctrine. Any person or entity owning, purchasing, or otherwise acquiring any interest in shares of capital stock of the Corporation shall be deemed to have notice of and consented to the provisions of this Section 5.04.

AGREEMENT OF LEASE

BETWEEN

REXCORP PLAZA SPE LLC

AND

FLUSHING BANK

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AGREEMENT OF LEASE, made as of this 4 day of June, 2014, between REXCORP PLAZA SPE LLC, a Delaware limited liability company ("Landlord"), having its principal office at 625 RXR Plaza, Uniondale, New York 11556 (hereinafter referred to as "Landlord"), and FLUSHING BANK, a New York chartered commercial bank ("Tenant"), having an office at 1979 Marcus Avenue, Suite E140, Lake Success, New York 11042.

WITNESSETH: Landlord and Tenant hereby covenant and agree as follows:

SPACE

1. (A) Landlord hereby leases to Tenant, and Tenant hereby hires and lets from Landlord, the Demised Premises (hereinafter defined). As used herein, the term "Demised Premises" shall collectively mean and refer to the Plaza Level Office Premises and the Plaza Level Bank Branch Premises (as such terms are hereinafter defined).

(B) As used herein, the term "Building" shall be deemed to mean the building known as RXR Plaza and located in Uniondale, New York. The parties hereby stipulate and agree that the Building shall be deemed to have a rentable area of 1,060,922 rentable square feet.

(C) As used herein, the term "Plaza Level Office Premises" shall be deemed to mean that certain space, substantially as shown on the rental plan initialed by the parties and annexed as an Exhibit "1-A" to this lease, located on the Plaza Level of the Building. The parties hereby stipulate and agree that the Plaza Level Office Premises shall be deemed to have a rentable area of 80,829 rentable square feet.

(D) As used herein, the term "Plaza Level Bank Branch Premises" shall be deemed to mean that certain space, substantially as shown on the rental plan initialed by the parties and annexed as an Exhibit "1-B" to this lease, located on the Plaza Level of the Building. The parties hereby stipulate and agree that the Plaza Level Bank Branch Premises shall be deemed to have a rentable area of 1,265 rentable square feet.

(E) As used herein, the term "Tenant's Proportionate Share" shall be deemed to mean and refer to the percentage derived from dividing the deemed rentable area of the entire Demised Premises by the deemed rentable area of the Building. Accordingly, as of the Rent Commencement Date, the Tenant's Proportionate Share shall be 7.74 percent (i.e., 82,094 / 1,060,922).

(F) Landlord hereby represents and warrants to Tenant that, by the date on which Landlord counter-executes and delivers to Tenant this lease, no portion of the Demised Premises shall be encumbered by an agreement of lease between Landlord and any third-party tenant or tenants.

## TERM

2. (A) The term ("Term" or "term") of this lease shall commence on the date (the "Term Commencement Date") on which Landlord tenders to Tenant access to the Demised Premises for the purpose of performing Tenant's Initial Work (as such term is defined in Article 5); subject to and in accordance with the applicable provisions of Article 5 of this lease. From and after the date (the "Occupancy Commencement Date") on which Tenant has completed Tenant's Initial Work (including issuance of a certificate of occupancy or temporary certificate of occupancy), Tenant shall be permitted to use and occupy the Demised Premises for the conduct of its business. During the period from the Term Commencement Date through and including the day immediately preceding the Occupancy Commencement Date, Tenant shall not be responsible for the payment of Rent (as such term is defined under Article 3 of this lease) or any item of additional rent under this lease, except that the insurance and indemnity obligations of Tenant (and its contractors) shall be deemed to be in full force and effect from the Term Commencement Date through the balance of the Term of this lease. Tenant waives any right to rescind this lease under Section 223-a of the New York Real Property Law or any successor statute of similar import then in force and, except as otherwise provided in Article 2(F) of this lease, further waives the right to recover any damages which may result from Landlord's failure to deliver possession of the Demised Premises on the Term Commencement Date.

(B) If the Occupancy Commencement Date occurs prior to January 1, 2015, and Tenant conducts business at the Demised Premises prior to January 1, 2015, then during the period from the date on which Tenant first conducts business at the Demised Premises through and including December 31, 2014 (the "Interim Period"), Tenant shall not be obligated to pay Rent under Article 3 of this lease, but Tenant shall pay to Landlord (i) all additional rent charges becoming due and payable under this lease, including, without limitation, all applicable energy-related charges set forth in Article 6 and/or Schedule "B" of this lease, and (ii) as additional rent on the first day of the Interim Period and on the first day of each subsequent calendar month throughout the balance of the Interim Period, the sum of \$8,551.46, in consideration of the cleaning and maintenance services performed by or on behalf of Landlord in and to the Demised Premises during the Interim Period (the "Distinct Cleaning Charge"). The parties acknowledge and agree that the Distinct Cleaning Charge shall only be payable during the Interim Period. If the Interim Period begins on a day other than the first day of a calendar month, then the aforesaid additional rent charges for the calendar month in which the Interim Period begins shall be equitably prorated.

(C) Tenant's obligation to pay Rent and all other items of additional rent under this lease shall commence on January 1, 2015 (the "Rent Commencement Date"), without regard to whether the Tenant's Initial Work has been completed by such date.

(D) The Term of this lease shall expire on December 31, 2026 (the "Expiration Date"), unless extended or sooner terminated in accordance with the terms of this lease.

(E) A "Lease Year" shall be comprised of a period of twelve (12) consecutive months. The first Lease Year shall commence on the Rent Commencement Date (i.e., January 1, 2015) and shall end on December 31, 2015. Each succeeding Lease Year shall commence on January 1st and shall end on the subsequent December 31<sup>st</sup>.

(F) Landlord and Tenant hereby acknowledge and agree that, as more specifically described in Article 5(A) of this lease, there are certain items of the Base Building Work (hereinafter defined) that must be performed and completed by Landlord prior to Tenant's commencement of the Tenant's Initial Work (collectively, the "Pre-TIW BBW Items"). Accordingly, and notwithstanding anything to the contrary contained herein, if either (i) Landlord has not commenced performance of the Pre-TIW BBW Items by the date that is thirty (30) days following the date on which Landlord first delivers to Tenant a fully-executed counterpart original of this lease, or (ii) Landlord has not achieved substantial completion of the Pre-TIW BBW Items by the date that is sixty (60) days following the date on which Landlord first delivers to Tenant a fully-executed counterpart original of this lease, and, in either such case, provided that such delay is not attributable to force majeure or the actions or omissions of Tenant, its agents, employees or contractors, then Tenant may deliver to Landlord written notice (the "Self Help Notice") of its intent to exercise its Self Help Remedy (as defined below). If Landlord has still not commenced performance of (in the case described in clause (i) above), or achieved substantial completion of (in the case described in clause (ii) above), the Pre-TIW BBW Items by the thirtieth (30<sup>th</sup>) day following effective delivery of the Self Help Notice, then Tenant may deliver to Landlord written demand to cease performance of the Landlord's Initial Construction, together with Tenant's written election to undertake the Self Help Remedy. The "Self Help Remedy" shall be the empowerment of Tenant to engage its own licensed, insured and reputable contractors and subcontractors for the purpose of performing and completing the Pre-TIW BBW Items, under the direction of Tenant. However, Tenant acknowledges and agrees that, with respect to any aspect(s) of the Pre-TIW BBW Items that would affect, touch or concern the Building systems, Tenant shall only engage a contractor(s) or subcontractor(s) from among the list of pre-approved MEP subcontractors set forth on Schedule "F" to this lease. If Tenant exercises the Self Help Remedy, then upon Tenant having achieved substantial completion of the Pre-TIW BBW Items, Landlord shall pay to Tenant, within thirty (30) days following demand therefor (which demand shall be accompanied by reasonable documentary evidence of the costs incurred), the aggregate amount of reasonable out-of-pocket expenses actually incurred by Tenant directly in connection with the performance and completion of the Pre-TIW BBW Items.

RENT

3. (A) The annual minimum rental ("Rent" or "rent") is as follows:

During the first Lease Year, the Rent shall be \$1,970,256.00, payable in monthly installments of \$164,188.00.

During the second Lease Year, the Rent shall be \$2,024,438.04, payable in monthly installments of \$168,703.17.

During the third Lease Year, the Rent shall be \$2,080,110.12, payable in monthly installments of \$173,342.51.

During the fourth Lease Year, the Rent shall be \$2,137,313.16, payable in monthly installments of \$178,109.43.

During the fifth Lease Year, the Rent shall be \$2,196,089.28, payable in monthly installments of \$183,007.44.

During the sixth Lease Year, the Rent shall be \$2,256,481.68, payable in monthly installments of \$188,040.14.

During the seventh Lease Year, the Rent shall be \$2,318,534.88, payable in monthly installments of \$193,211.24.

During the eighth Lease Year, the Rent shall be \$2,382,294.60, payable in monthly installments of \$198,524.55.

During the ninth Lease Year, the Rent shall be \$2,447,807.76, payable in monthly installments of \$203,983.98.

During the tenth Lease Year, the Rent shall be \$2,515,122.48, payable in monthly installments of \$209,593.54.

During the eleventh Lease Year, the Rent shall be \$2,584,288.32, payable in monthly installments of \$215,357.36.

During the twelfth Lease Year, the Rent shall be \$2,655,356.28, payable in monthly installments of \$221,279.69.

(B) Tenant agrees to pay the Rent to Landlord, without notice or demand, in lawful money of the United States which shall be legal tender in payment of the debts and dues, public and private, at the time of payment in advance on the first day of each calendar month during the Demised Term at the office of the Landlord, or at such other place as Landlord shall designate; it being acknowledged and agreed that the inclusion of an address for payment on an invoice (if any) submitted by Landlord shall qualify as such designation. Tenant shall pay the Rent as above and as hereinafter provided, without any set off or deduction whatsoever.



(C) Notwithstanding the forgoing, provided there is no existing Event of Default (as defined in Article 29 of this lease), and further provided that this lease then remains in full force and effect, Tenant shall receive a credit, in the aggregate amount of \$4,136,395.34, against the Rent payable pursuant to Article 3(A) above; such Rent credit to be applied in accordance with the following schedule:

(i) In twelve (12) equal and consecutive monthly installments of \$83,359.00 against the monthly installments of Rent due and payable for each of the first through twelfth full calendar months of the first Lease Year;

(ii) In twelve (12) equal and consecutive monthly installments of \$85,651.37 against the monthly installments of Rent due and payable with respect to each of the first through twelfth full calendar months of the second Lease Year;

(iii) In twelve (12) equal and consecutive monthly installments of \$88,006.79 against the monthly installments of Rent due and payable with respect to each of the first through twelfth full calendar months of the third Lease Year; and

(iv) In twelve (12) equal and consecutive monthly installments of \$87,682.45 against the monthly installments of Rent due and payable with respect to each of the first through twelfth full calendar months of the fourth Lease Year.

#### USE

4. (A) Tenant shall use and occupy the Demised Premises only for executive and administrative offices and for all other lawful uses that are merely ancillary to such executive and administrative office usage, but for no other purpose; provided, however, that Tenant shall also be permitted under this lease to operate a retail bank branch and all lawful services related thereto at and from the Plaza Level Bank Branch Premises (but not at or from any other portion of the Demised Premises).

(B) Tenant shall not use or occupy, suffer or permit the Demised Premises, or any part thereof, to be used in any manner which would in any way, in the reasonable judgment of Landlord, (i) violate any laws or regulations of public authorities; (ii) violate the terms of any underlying leases, (iii) make void or voidable any insurance policy then in force with respect to the Building; (iv) impair the appearance, character or reputation of the Building; (v) discharge objectionable fumes, vapors or odors into the Building, air-conditioning systems or Building flues or vents in such a manner as to offend other occupants. The provisions of this Section shall not be deemed to be limited in any way to or by the provisions of any other Section or any Rule or Regulation.

(C) The emplacement of any equipment which will impose an evenly distributed floor load in excess of 100 pounds per square foot shall be done only after written permission is received from the Landlord; provided, however, that there shall be no such floor load limitation with respect to installations made in and to the Lower Level Storage Space (as such term is defined under Article 55 of this lease), so long as such installations are tied-in to the slab floor of the Lower Level Storage Space (as opposed to the raised flooring currently existing therein). Such permission will be granted only after adequate proof is furnished by a professional engineer that such floor loading will not overload the structure. Business machines and mechanical equipment in the Demised Premises shall be placed and maintained by Tenant, at Tenant's expense, in such manner as shall be sufficient in Landlord's judgment to absorb vibration and noise and prevent annoyance or inconvenience from extending out of the Demised Premises or to Landlord or any other tenants or occupants of the Building.

(D) Tenant will not at any time use or occupy the Demised Premises in violation of the certificate of occupancy (temporary or permanent) issued for the Building or portion thereof of which the Demised Premises form a part.

(E) Except if specifically permitted under Section A of this Article, Tenant shall not use the Demised Premises or permit the Demised Premises to be used for any of the prohibited uses set forth in Article 20(I) hereof.

#### CONDITION OF THE DEMISED PREMISES

5. (A) Tenant accepts the Demised Premises in its current "as is" condition, except that Landlord, at Landlord's sole cost and expense, shall perform the work described on Schedule "D" to this lease (the "Base Building Work"). The Base Building Work shall be performed by Landlord using Landlord's Building-standard materials and finishes. Those items of Base Building Work described in Item Nos. 2, 4, and 7 on Schedule "D" to this lease must be performed and completed by Landlord prior to Tenant's commencement of the Tenant's Initial Work, while those items of Base Building Work described in Item Nos. 1, 3, 5, 6 and 9 on Schedule "D" to this lease may be performed by Landlord concurrently with Tenant's performance of the Tenant's Initial Work (except that performance of the landscape planting components of the Base Building Work may be postponed until the Spring of 2015). With respect to the items of Base Building Work described in Item No. 8 of Schedule "D" to this lease, Landlord shall be required to construct that portion of the new corridor that will also serve as a demising wall of the Plaza Level Office Premises prior to Tenant's commencement of the Tenant's Initial Work, but the balance of the new corridor construction work may be performed concurrently with Tenant's performance of the Tenant's Initial Work. Tenant shall cause Tenant's Contractor (hereinafter defined) and its subcontractors to reasonably cooperate with Landlord in coordinating the performance of the Tenant's Initial Work with the performance of the Base Building Work, and Landlord shall cause its Base Building Work contractors and subcontractors to reasonably cooperate with Tenant in coordinating the performance of the Base Building Work with the performance of the Tenant's Initial Work.

(B) Notwithstanding anything to the contrary contained in Article 5(A) above, Tenant shall have the right, at Tenant's sole cost and expense (except as otherwise expressly set forth below in this Article 5), to cause certain tenant improvement work to be performed in and to the Demised Premises in order to prepare same for occupancy by Tenant (collectively, the "Tenant's Initial Work"). The Tenant's Initial Work shall be performed, if at all, subject to and in accordance with all terms, requirements and conditions set forth in the balance of this Article 5.

(C) (i) Promptly following the execution and delivery of this lease, Tenant shall cause its licensed architect to prepare a complete and fully-detailed set of construction drawings, setting forth all architectural and MEP specifications for the Tenant's Initial Work (the "Proposed CDs"). The Proposed CDs shall be submitted to Landlord for its review and approval or comment. Tenant shall cause its architect to ensure that the specifications set forth on the Proposed CDs are (a) compatible with the base Building plans and systems, (b) comply with all applicable laws and the rules, regulations, requirements and orders of any and all governmental agencies, departments or bureaus having jurisdiction thereover, (c) sufficiently detailed so as to enable contractor bids to be developed thereupon, and (d) of a form and content sufficient to enable a building permit to be issued on the basis thereof. That particular set of Proposed CDs that ultimately receives Landlord's approval shall be herein referred to as the "Final CDs". Any changes to the Final CDs shall be subject to the prior review and approval of Landlord.

(ii) Landlord shall use commercially reasonable efforts to provide Tenant with notice (a "CD Response Notice") of its approval of, or a detailed set of comments to, any set of Proposed CDs by the Applicable CD Response Date (hereinafter defined). As used herein, the term "Applicable CD Response Date" shall mean either (a) with respect to the initial set of Proposed CDs, the date that is eleven (11) business days following Landlord's receipt of the subject set of Proposed CDs or (b) with respect to any revised set of Proposed CDs, the date that is six (6) business days following Landlord's receipt of the subject set of Proposed CDs. If Landlord shall fail to provide Tenant with a CD Response Notice by the Applicable CD Response Date, then Tenant shall have the right to deliver to Landlord a Deemed CD Approval Warning Notice (hereinafter defined). If Landlord shall fail to provide Tenant with a CD Response Notice within three (3) business days following proper delivery of a Deemed CD Approval Warning Notice, then Landlord shall be deemed to have approved the subject set of Proposed CDs, except that Landlord shall be deemed to have withheld its approval of any aspects of the Proposed CDs that would be structural in nature or would have a material adverse impact upon the proper functioning of any Building system. As used herein, the term "Deemed CD Approval Warning Notice" shall mean a written notice from Tenant to Landlord that (w) specifically references this Article 5(C)(ii); (x) advises Landlord that it has failed to provide Tenant with a response to a specifically-identified set of Proposed CDs within the time period allotted therefor under this Article; (y) advises Landlord of the fact that, pursuant to the terms of this lease, Landlord will be deemed to have approved the subject set of Proposed CDs if such failure continues for a period of three (3) business days following the delivery of this Deemed CD Approval Warning Notice; and (z) includes on both the envelope and the first page of the subject notice, in bold uppercase letters (14 point type or greater), the following statement: "**THIS IS A TIME SENSITIVE NOTICE AND LANDLORD SHALL BE DEEMED TO WAIVE ITS RIGHTS IF IT FAILS TO RESPOND IN THE TIME PERIOD PROVIDED**".

(D) Following completion and approval of the Final CDs, Tenant shall engage in a customary construction bidding practice for the selection of a general contractor for the performance of the Tenant's Initial Work on the basis of the specifications set forth on the Final CDs; subject to and in accordance with the terms, covenants, conditions and restrictions set forth in this Article 5(D) and in Article 5(E), below . Tenant covenants and agrees that it will not directly or indirectly solicit or accept bids from any general contractor unless that prospective general contractor has been reviewed and approved by Landlord, such approval not to be unreasonably withheld or delayed. Therefore, prior to the commencement of the bidding procedure, Tenant shall submit the names of all prospective general contractors, as applicable, for Landlord's review and approval, such approval not to be unreasonably withheld or delayed together with a completed copy of Landlord's contractor vetting form (which is based, in substantial part, upon AIA Form A-305) for each such general contractor. In no event shall Tenant be permitted to use, and Landlord shall not be required to approve of, any general contractor (other than Landlord's designated contractor) that is, or is an affiliate of, an owner or operator of commercial office properties within a fifty mile radius of New York City. Notwithstanding anything to the contrary contained herein, Landlord hereby acknowledges and agrees that Landlord has granted its pre-approval of each general contractor listed on Schedule "E" to this lease. In soliciting bids from prospective general contractors, Tenant shall put each such general contractor on notice that (i) with respect to all heating, ventilating and air conditioning, mechanical, electrical and plumbing work or installations associated with the Tenant's Initial Work ("MEP Work"), Tenant and Tenant's Contractor may only solicit bids from, and may only engage for performance of such MEP Work, the applicable subcontractors listed on Schedule "F" to this lease ("Landlord's Pre-Approved MEP Subcontractors"); and (ii) any contractor or subcontractor to be engaged by Tenant or Tenant's Contractor for performance of any other aspect of the Tenant's Initial Work shall be subject to the prior review and approval of Landlord (in accordance with the provisions of Article 5(F)(i) below), such approval not to be unreasonably withheld or delayed. Tenant will provide Landlord's designated contractor with a full set of the bid package for the Tenant's Initial Work, which bid package shall be identical to (and provided at the same time as) the bid package provided to Tenant's other prospective general contractors, and Landlord will cause Landlord's designated contractor to prepare and submit to Tenant within the time frame required by Tenant of Tenant's other prospective general contractors a bid to perform the Tenant's Initial Work as Tenant's general contractor.

(E) Upon completion of the bidding process, Tenant shall submit to Landlord the bona fide, written, trade cost breakdown bid for the performance of the Tenant's Initial Work from the reputable, licensed and qualified general contractor ("Tenant's Proposed Contractor") whose bid Tenant desires to accept ("Tenant's Desired Bid"). Landlord shall then have the right to elect, by written notice to Tenant, to either (i) have Landlord's designated contractor "match" Tenant's Desired Bid and perform the Tenant's Initial Work for the bid price quoted in such Tenant's Desired Bid (the "Right to Match"), or (ii) direct Tenant to engage Tenant's Proposed Contractor to perform the Tenant's Initial Work in accordance with the terms of Tenant's Desired Bid (in which event Tenant's Proposed Contractor shall thereafter be deemed to be the "Tenant's Contractor" for purposes of this Article 5). If Landlord timely exercises the Right to Match, then Tenant shall be required to engage, pursuant to a separate written agreement, Landlord's designated contractor as general contractor for performance of the Tenant's Initial Work in accordance with the terms of the Tenant's Desired Bid, in which event Landlord's designated contractor shall thereafter be deemed to be the "Tenant's Contractor" for purposes of this Article 5. In formulating a Tenant's Desired Bid: (a) Tenant shall engage in a sealed bid process with its prospective general contractors; (b) Tenant shall provide Landlord's designated contractor with a complete and accurate copy of the bid package provided to all other prospective general contractors from whom Tenant desires to solicit a bid (at the same time at which such bid package is provided to those others); (c) a designated representative of Landlord's designated contractor shall be present at the bid opening and shall receive a copy of all bids; (d) Tenant shall ensure that the Tenant's Desired Bid represents the full scope of the Tenant's Initial Work; (e) Tenant shall "level" all bids received prior to designating one as the Tenant's Desired Bid; (f) the Tenant's Desired Bid must be presented by Tenant to Landlord and must be accompanied by Tenant's written certification that the bid is bona fide and covers all aspects of the Tenant's Initial Work; (g) Tenant shall reasonably cooperate with Landlord's designated contractor in modifying the Tenant's Desired Bid amount if Landlord's designated contractor identifies errors or omissions in or from the Tenant's Desired Bid in relation to the other bids or Tenant's bid package; and (h) Landlord's designated contractor shall have five (5) business days, time being of the essence, following receipt of the final Tenant's Desired Bid in which to exercise its Right to Match. The failure of Landlord to timely respond as set forth in the preceding sentence shall automatically be deemed authorization for Tenant to engage Tenant's Proposed Contractor to perform Tenant's Initial Work in accordance with the terms of Tenant's Desired Bid. If Landlord does not exercise its Right to Match, and thus Tenant engages a general contractor other than Landlord's designated contractor as Tenant's Contractor for the performance of the Tenant's Initial Work, then Tenant shall pay to Landlord or Landlord's designated contractor, as directed by Landlord, a construction inspection fee equal to four (4.0%) percent of the total cost to Tenant of the Tenant's Initial Work (the "TIW Inspection Fee"). In imposing the TIW Inspection Fee, neither Landlord nor its designated contractor assumes any responsibility for the quality or manner in which such work has been performed. In lieu of accepting cash payment of the TIW Inspection Fee from Tenant, Landlord shall have the right and option of deducting the amount of the TIW Inspection Fee from the Tenant's Allowance. In any event, the person or entity engaged by Tenant as general contractor or construction manager for performance of the Tenant's Initial Work (with Landlord's approval) shall be hereinafter referred to as "Tenant's Contractor."

(F) The provisions of this Article 5(F) shall apply to the performance of the Tenant's Initial Work without regard to the identity of Tenant's Contractor:

(i) Tenant agrees that it will not engage or use, not permit Tenant's Contractor to engage or use, any contractor or subcontractor with respect to the performance of any aspect of the Tenant's Initial Work unless and until such time as the subject contractor or subcontractor has been approved by Landlord, such approval not to be unreasonably withheld or delayed; it being understood and agreed that any and all heating, ventilating and air conditioning, mechanical, electrical and plumbing work or installations associated with the Tenant's Initial Work ("MEP Work"), Tenant or Tenant's Contractor, as applicable, may only solicit bids from, and may only engage for performance of such MEP Work, the applicable subcontractors listed on Schedule "F" to this lease ("Landlord's Pre-Approved MEP Subcontractors"). Accordingly, Tenant shall submit to Landlord a completed copy of Landlord's contractor vetting form (which is based, in substantial part, upon AIA Form A-305) for each such contractor and subcontractor (other than the Landlord's Pre-Approved MEP Contractors) that Tenant or Tenant's Contractor proposes to engage or use for the performance of any aspect of the Tenant's Initial Work. Notwithstanding anything to the contrary contained herein, however, in no event may Tenant engage or use, or permit Tenant's Contractor to engage or use, for any aspect of the Tenant's Initial Work any contractor or subcontractor that is, or is an affiliate of, an owner or operator of commercial office properties within a fifty mile radius of New York City. Also notwithstanding anything to the contrary contained herein, if the subject contractor or subcontractor is recommended to Tenant by RXR C&D for performance of a subject aspect or aspects of the Tenant's Initial Work, then Landlord shall be deemed to have approved that contractor or subcontractor without need for further vetting;

(ii) Tenant agrees that it will not, either directly or indirectly, use any contractors and/or subcontractors and/or labor and/or materials if the use of such contractors and/or subcontractors and/or labor and/or materials would or will create any difficulty with other contractors, subcontractors and/or labor engaged by Tenant or Landlord or others in the construction, maintenance or operation of the Building or any part thereof;

(iii) Prior to the commencement of the Tenant's Initial Work, Tenant shall, at Tenant's expense, (a) cause the Final CDs to be filed with the appropriate building department, and (b) make application for, and obtain, all governmental and quasi-governmental permits, licenses and authorizations required for the performance of the Tenant's Initial Work (collectively, "Permits"). Landlord will reasonably cooperate with Tenant, at no cost or expense to Landlord, in securing the Permits;

(iv) Prior to the commencement of the Tenant's Initial Work, Tenant shall furnish Landlord with (a) appropriate evidence that Tenant's Contractor and all contractors and subcontractors maintain all liability insurance coverage reasonably required by Landlord (listing Landlord and Landlord's designees as additional insureds, as their interests may appear), (b) appropriate evidence that Tenant's Contractor and all contractors and subcontractors have procured a workmen's compensation insurance policy (in compliance with the laws of the State of New York) covering the activities of all persons performing work at the entire Demised Premises, and (c) copies of all Permits;

(v) Following satisfaction by Tenant and Tenant's Contractor and all contractors and subcontractors (as appropriate) of all requirements set forth in clauses (i) through (iv) of this Article 5(F), Tenant's Contractor and all contractors and subcontractors shall be permitted access to the entire Demised Premises for the purpose of performing the Tenant's Initial Work. Tenant shall ensure that the Tenant's Initial Work shall (a) be performed in a good and workmanlike manner, (b) be performed substantially in accordance with the Final CDs, and (c) at all times comply with all applicable laws, codes, rules, regulations, orders, requirements and conditions of all governmental and quasi-governmental agencies, departments and bureaus having jurisdiction over the Building or the Tenant's Initial Work and all applicable rules and regulations of the Landlord;

(vi) Upon completion of the Tenant's Initial Work, Tenant shall obtain and deliver to Landlord (a) all required certificates of occupancy, both temporary and permanent, for the entire Demised Premises, (b) paid receipts from all parties supplying labor or materials with respect to any portion of the Tenant's Initial Work, collectively evidencing payment in full for the performance of the Tenant's Initial Work; (c) waivers of mechanics' liens from all contractors, subcontractors, and other professionals used in the performance of the Tenant's Initial Work; and (d) a signed certificate by Tenant's architect, certifying that the Tenant's Initial Work has been completed substantially in accordance with the Final CDs; and

(vii) Tenant shall defend, indemnify and save harmless Landlord against any and all mechanics' and other liens filed in connection with the Tenant's Initial Work, including the liens of any conditional sales of, or chattel mortgages upon, any materials, fixtures or articles so installed in and constituting part of the Demised Premises and against any loss, cost, liability, claim, damage and expense, including reasonable counsel fees, penalties and fines incurred in connection with any such lien, conditional sale or chattel mortgage or any action or proceeding brought thereon. If filed, Tenant, at its expense, shall procure the satisfaction or discharge of all such liens, whether through bonding or otherwise, within twenty (20) days of the filing of such lien against the Demised Premises or the Building. If Tenant shall fail to cause such lien to be discharged within the aforesaid period, then, in addition to any other right or remedy, Landlord may, but shall not be obligated to, discharge the same either by paying the amount claimed to be due or by procuring the discharge of such lien by deposit or by bonding proceedings, and in any such event Landlord shall be entitled, if Landlord so elects, to compel the prosecution of an action for the foreclosure of such lien by the lienor and to pay the amount of the judgment in favor of the lienor with interest, costs and allowances. Any amount so paid by Landlord, and all reasonable costs and expenses incurred by Landlord in connection therewith, together with interest thereon at the maximum rate permitted by law from the respective dates of Landlord's making of the payments or incurring of the cost and expense, shall constitute additional rent and shall be paid on demand. Nothing in this lease contained shall be construed in any way as constituting the consent or request of Landlord, expressed or implied, to any contractor, subcontractor, laborer or materialman for the performance of any labor or the furnishing of any material for any improvement, alteration or repair of the Demised Premises, nor as giving any right or authority to contract for the rendering of any services or the furnishing of any materials that would give rise to the filing of any mechanics' liens against the Demised Premises.

(G) (i) Subject to the following provisions of this Article 5(G), the Tenant's Initial Work shall be performed at Tenant's sole cost and expense. Provided that there is no existing Event of Default under this lease, Landlord shall pay up to the Maximum Tenant's Allowance Amount (hereinafter defined) toward the total charges for the Tenant's Initial Work ("Tenant's Allowance"). The Tenant's Allowance will be paid or applied in accordance with the terms and conditions of Article 5(H) of this lease. In no event, however, shall any portion of Tenant's Allowance be applied toward Soft Costs. As used herein, the term "Soft Costs" shall generally include, without limitation, the costs and expenses incurred by Tenant in connection with the acquisition and installation of Tenant's furniture, fixtures and equipment in the Building (or any portion thereof). However, the term "Soft Costs" shall generally exclude, without limitation: (i) the costs and charges incurred in connection with the installation of Tenant's data and telecommunication wiring and cabling in and about the Building (or any portion thereof), (ii) the TIW Inspection Fee (if any), and (iii) the fees and charges incurred in connection with obtaining governmental and quasi-governmental permits, authorizations and approvals or the fees and charges of any architects and engineers engaged by Tenant in connection with the design of the Tenant's Initial Work ("Designated Professional Fees").

(ii) Subject to augmentation in accordance with the provisions of Article 5(G)(iii) and 5(G)(iv) of this lease, the term "Maximum Tenant's Allowance Amount" shall mean \$3,283,760.00.

(iii) Notwithstanding anything to the contrary contained in this Article 5(G), if Tenant elects to increase the current ceiling height and/or lower or remove the current raised flooring where feasible throughout the Plaza Level Office Premises as part of the Tenant's Initial Work, then the "Maximum Tenant's Allowance Amount" shall be deemed to have been increased by an amount equal to \$404,145.00.



(iv) Also notwithstanding anything to the contrary contained in this Article 5(G), if Tenant elects to construct and install up to three executive bathrooms (with accompanying shower facilities) within the Plaza Level Office Premises as part of the Tenant's Initial Work, then the "Maximum Tenant's Allowance Amount" shall be deemed to have been increased by an amount equal to \$50,000.00.

(v) The prospective Maximum Tenant's Allowance Amount augmentation events described in clauses (iii) and (iv) of this Article 5(G) are neither mutually exclusive nor interdependent; it being agreed that each may be applied in the absence of the other and that both increases will be applied if both events occur. In addition, the parties acknowledge and agree that if and when the Maximum Tenant's Allowance Amount is augmented pursuant to either or both of clauses (iii) and (iv) of this Article 5(G), then there shall be no obligation upon Tenant to use any minimum portion of the Tenant's Allowance in performing the work described in said clauses (iii) or (iv) of this Article 5(G).

(H) Tenant may, as the Tenant's Initial Work progresses, submit statements to Landlord from time to time, but not more often than once per month, setting forth the cost of those aspects of the Tenant's Initial Work which have been completed through the date of such statement (such statement to be prepared in accordance with standard progress payment application forms issued by the American Institute of Architects [i.e., forms G-702 and G-703] or substantially similar forms). Each such statement shall be accompanied by a partial lien waiver from Tenant's Contractor and a certificate from an authorized officer of Tenant requesting reimbursement for sums actually paid (such requested amount, the "Requested Tenant's Allowance Payment") and certifying that: (i) the Requested Tenant's Allowance Payment is on account of Tenant's Initial Work costs ("Paid TIW Costs") theretofore paid by Tenant (but on account of which no portion of the Tenant's Allowance has previously been paid or applied); and (ii) the intended use thereof is for reimbursement to Tenant for payment of the Paid TIW Costs. Tenant acknowledges and agrees that the amount of each subject Requested Tenant's Allowance Payment must not exceed either (a) the Allowance Share (hereinafter defined) of the subject Paid TIW Costs, or (b) when aggregated with all prior payments from the Tenant's Allowance, the Maximum Tenant's Allowance Amount. For purposes of this Article 5(H), the "Allowance Share" shall be a percentage to be determined in accordance with the following formula: the Maximum Tenant's Allowance Amount divided by the total charges for the Tenant's Initial Work, multiplied by 100. Within thirty (30) days following receipt of any such statement and accompanying partial lien waiver and certificate, Landlord shall pay to Tenant an amount equal to ninety (90%) percent of the subject Requested Tenant's Allowance Payment. The ten (10%) percent portion of each Requested Tenant's Allowance Payment not so paid to Tenant shall be retained by Landlord subject to the following provisions of this Article 5(H) and the total amount so retained shall hereinafter be collectively referred to as the "Retained Tenant's Allowance". Provided that there is no existing Event of Default under this lease, Landlord shall pay to Tenant the entire Retained Tenant's Allowance (less any portion of the TIW Inspection Fee [if applicable] not previously deducted from the Tenant's Allowance by Landlord, which portion Landlord shall, at its election, retain for its own account or pay directly to Landlord's designated contractor) within thirty (30) days following Landlord's receipt of the last of the deliverables required of Tenant under Article 5(F)(vi) of this lease. The right to receive reimbursement for the cost (or a portion thereof) of the Tenant's Initial Work as set forth herein shall be the exclusive benefit of Tenant; it being the express intent of the parties hereto that in no event shall such right be conferred upon or for the benefit of any third party, including without limitation, any contractor, subcontractor, materialman, laborer, architect, engineer, attorney or any other person, firm or entity.

(I) In the event the aggregate amount of hard costs, Designated Professional Fees and TIW Inspection Fee associated with the Tenant's Initial Work is less than the Maximum Tenant's Allowance Amount, Tenant shall not be entitled to the payment or credit of any unused portion of such maximum Tenant's Allowance amount.

#### SERVICES

6. As long as there is no existing Event of Default, under any covenants of this lease, Landlord, during the hours of 8:00 A.M. to 6:00 P.M. on weekdays and 8:00 A.M. to 1:00 P.M. on Saturdays ("Working Hours"), excluding union holidays, shall furnish the Demised Premises with heat and air-conditioning in the respective seasons, and, at all hours, provide the Demised Premises with electricity for lighting and usual office equipment; all subject to and in accordance with the terms and conditions set forth in Schedule "B" annexed hereto. Landlord and Tenant hereby acknowledge and agree that the day after Thanksgiving will not be considered a union holiday for any purposes of this lease.

#### LANDLORD'S REPAIRS

7. Landlord, at its expense, will make or cause its designated contractor to make all the repairs to and provide the maintenance for the Demised Premises (excluding painting and decorating) and for all public areas and facilities as set forth in Schedule "A", except such repairs and maintenance as may be necessitated by the negligence, improper care or use of such premises and facilities by Tenant, its agents, employees, licensees or invitees, which will be made by Landlord or its designated contractor at Tenant's expense.

#### WATER SUPPLY

8. Landlord, at its expense, shall furnish hot and cold or tempered water for lavatory purposes only.

## PARKING FIELD

9. (A) Tenant shall have the right to use its proportionate share of total number of spaces in the parking area designated for tenants of the Building (hereinafter sometimes referred to as "Building Parking Area"), but in no event less than one (1) parking space per every 250 rentable square feet of the then deemed rentable area of the Demised Premises, for the parking of automobiles of Tenant, its employees and invitees therein, subject to the Rules and Regulations now or hereafter adopted by Landlord. Forty-Five (45) of the aforesaid parking spaces shall be designated as reserved for the exclusive use of Tenant of which reserved spaces, forty (40) shall be located under cover in the Building parking garage and five (5) shall be located in the west surface lot; provided, however, that any and all such designations may, at Landlord's election, be suspended for any period during which there remains uncured any Event of Default on the part of Tenant under this lease. Such suspension, if any, shall be in addition to, rather than in lieu of, any other rights and remedies available to Landlord with respect to the subject Event of Default. The initial locations of the aforesaid reserved parking spaces are marked and set forth on the parking plan annexed hereto as Exhibit "2"; it being acknowledged and agreed that Landlord shall have the right to reasonably relocate such reserved parking spaces (provided, however, that no under-cover, garage, reserved parking space may be located outside of a covered level of the garage without Tenant's prior written consent), from time to time, throughout the Term. Tenant shall not use nor permit any of its officers, agents or employees to use any parking spaces in excess of Tenant's allotted number of spaces therein. Upon request therefor by Tenant, Landlord shall provide each employee of Tenant who works at the Demised Premises with a parking permit (e.g., hang-tag or sticker) for access to the parking garage and the West parking lot that service the Building. Landlord shall have the right to create validation systems, barriers or gates, permits, stickers and other systems in connection with the operation of the Building Parking Area.

(B) Landlord agrees that, from time to time (but no more frequently than once per month), at Tenant's request, Landlord will make special parking accommodation for up to fifteen (15) additional passenger vehicles in the Visitor Lot portion of the Building Parking Area. Landlord will accomplish such accommodation by coning-off, roping-off or otherwise temporarily reserving the fifteen (15) parking spaces within that Visitor Lot that are located nearest to the main Building entrance.

## DIRECTORY

10. Tenant shall be entitled to a reasonable number of listings in the computerized directory serving the Building, which is currently located at the concierge desk on the Plaza Level of the Building. The initial listings will be made at Landlord's expense. As frequently as one (1) time every three (3) months during the Term, Landlord shall make any batch of changes required by Tenant to its directory listings, at no charge to Tenant. Other interim directory listing changes requested by Tenant shall be made by Landlord at Tenant's reasonable expense. Landlord's acceptance of any name for listing on the directory will not be deemed, nor will it substitute for, Landlord's consent, as required by this Lease, to any sublease, assignment or other occupancy of the Premises.

TAXES AND OTHER CHARGES

11. (A) As used in and for the purposes of this Article 11, the following definitions shall apply:

(i) "Taxes" shall be the real estate taxes, assessments, special or otherwise, sewer rents, rates and charges, and any other governmental charges, general, specific, ordinary or extraordinary, foreseen or unforeseen, levied on a calendar year or fiscal year basis against the Real Property. Landlord represents that, except for an IDA sublease arrangement and related PILOT Agreement involving a particular tenant of the Building, there are no tax abatement programs in place with respect to the Real Property and that there are no existing, or to Landlord's knowledge, pending special assessments with respect to the Real Property. Landlord and Tenant hereby acknowledge and agree that the computation of Taxes for purposes of this Article 11 shall specifically exclude any discounting effect associated with any such PILOT Agreement entered into for the purpose of bestowing IDA benefits upon Tenant or any other tenant of the Building. If at any time during the Term the method of taxation prevailing at the date hereof shall be altered so that there shall be levied, assessed or imposed in lieu of, or as in addition to, or as a substitute for, the whole or any part of the taxes, levies, impositions or charges now levied, assessed or imposed on all or any part of the Real Property (a) a tax, assessment, levy, imposition or charge based upon the rents received by Landlord, whether or not wholly or partially as a capital levy or otherwise, or (b) a tax, assessment, levy, imposition or charge measured by or based in whole or in part upon all or any part of the Real Property and imposed on Landlord, or (c) a license fee measured by the rent payable by Tenant to Landlord, or (d) any other tax, levy, imposition, charge or license fee however described or imposed; then all such taxes, levies, impositions, charges or license fees or any part thereof, so measured or based, shall be deemed to be Taxes. Nothing contained in this Lease shall require Tenant to pay any inheritance, gift, succession, corporate franchise or (except as otherwise expressly set forth in the preceding sentence) income tax of Landlord, nor shall any be deemed Taxes.

(ii) "Base Year Taxes" shall mean (x) with respect to Taxes imposed on a fiscal year basis, the Taxes actually due and payable with respect to the 2014/2015 fiscal tax year, as finally determined, and (y) with respect to Taxes imposed on a calendar year basis, the Taxes actually due and payable with respect to the 2015 calendar year, as finally determined.

(iii) "Escalation Year" shall mean (x) with respect to Taxes imposed on a fiscal year basis, any fiscal tax year following the 2014/2015 fiscal tax year which shall include any part of the Term, and (y) with respect to Taxes imposed on a calendar year basis, any calendar year after the 2015 calendar year which shall include any part of the Term.

(iv) "Real Property" shall be the land upon which the Building stands and any adjacent parcels which form part of the overall complex and any part or parts thereof utilized for parking, landscaped areas or otherwise used in connection with the Building, and the Building and other improvements appurtenant thereto.

(B) The Tenant shall pay the Landlord increases in Taxes levied against the Real Property as follows: If the Taxes actually due and payable with respect to the Real Property in any Escalation Year shall be increased above the Base Year Taxes, then the Tenant shall pay to the Landlord, as additional rent for such Escalation Year, a sum equal to Tenant's Proportionate Share of said increase ("Tenant's Tax Payment" or "Tax Payment").

(C) Landlord shall render to Tenant a statement containing a computation of Tenant's Tax Payment ("Landlord's Statement"). Upon request therefor by Tenant, Landlord will provide Tenant with a copy of the tax bill(s) that relate to any subject Landlord's Statement. Landlord shall endeavor to issue Landlord's Statement within one hundred twenty (120) days following the end of each Escalation Year. Within thirty (30) days after the rendition of the Landlord's Statement, Tenant shall pay to Landlord the amount of Tenant's Tax Payment. On the first day of each month following the rendition of each Landlord's Statement, Tenant shall pay to Landlord, on account of Tenant's next Tax Payment, a sum equal to one-twelfth (1/12th) of Tenant's last Tax Payment due hereunder, which sum shall be subject to adjustment for subsequent increases in Taxes.

(D) If during the Term Taxes are required to be paid as a tax escrow payment to a mortgagee, then, at Landlord's option, the installments of Tenant's Tax Payment shall be correspondingly accelerated so that Tenant's Tax Payment or any installment thereof shall be due and payable by Tenant to Landlord at least thirty (30) days prior to the date such payment is due to such mortgagee.

(E) Except if and to the extent restricted or limited by law or by agreement with the applicable taxing authority, Landlord shall file to contest Taxes each year throughout the Term of this lease. Tenant shall not, without Landlord's prior written consent, institute or maintain any action, proceeding or application in any court or body or with any governmental authority for the purpose of changing the Taxes. If the Taxes for any tax period upon which Base Year Taxes were calculated (any such tax period being herein referred to as a "Base Year"), and/or for any Escalation Year on account of which Tenant has previously paid the corresponding Tenant's Tax Payment, are modified by final determination of legal proceedings, settlement or otherwise, then the Tenant's Tax Payment either for all prior Escalation Years (if any Base Year is affected) or only the affected Escalation Year(s) (if no Base Year is affected) shall be recalculated so as to account for the subject modification; it being acknowledged and agreed that, in so recalculating Tenant's Tax Payment for any Escalation Year, Landlord shall be entitled to include in the recalculation of Taxes for that Escalation Year an allocable portion of the reasonable legal fees and expenses incurred by Landlord in connection with the subject proceedings and, if applicable, settlement. If, as a result of such recalculation, the revised Tenant's Tax Payment applicable to a subject Escalation Year is less than the Tenant's Tax Payment actually theretofore paid by Tenant with respect to that Escalation Year, then Landlord shall promptly pay or credit to Tenant the entire amount of such difference. However, if, as a result of such recalculation, the revised Tenant's Tax Payment applicable to a subject Escalation Year is greater than the Tenant's Tax Payment actually theretofore paid by Tenant with respect to that Escalation Year, then Tenant shall pay to Landlord, as additional rent, the entire amount of such difference within thirty (30) days following written demand therefor. In addition, in the event Landlord incurs legal fees and/or expenses in connection with any proceeding(s) and/or negotiations for the reduction of Taxes where, as a result of which, no modification is effected, then Landlord shall be entitled to include in the calculation of Taxes for each Escalation Year with respect to which the subject proceeding(s) or negotiations were conducted an allocable portion of the reasonable legal fees and/or expenses so incurred.

(F) Landlord's failure to render a Landlord's Statement with respect to any Escalation Year shall not prejudice Landlord's right to render a Landlord's Statement with respect to any Escalation Year. The obligations of Landlord and Tenant under the provisions of this Article with respect to any additional rent for any Escalation Year shall survive the expiration or any sooner termination of the Demised Term.

#### TENANT'S REPAIRS

12. Tenant shall take good care of the Demised Premises and, subject to the provisions of Article 7 hereof, Landlord or its designated contractor at the reasonable expense of Tenant, shall make as and when needed as a result of misuse or neglect by Tenant or Tenant's servants, employees, agents or licensees, all repairs in and about the Demised Premises necessary to preserve them in good order and condition. Notwithstanding anything contained to the contrary in this Lease, in the event that, at any time, a supplemental air conditioning unit or units service the Demised Premises, Tenant shall, at its own cost and expense, maintain, repair and replace, as necessary, such supplemental air conditioning unit or units (and all of the components thereof). Accordingly, Tenant shall at all times obtain and keep in full force and effect for the benefit of Landlord and Tenant with Landlord's Building heating ventilating and air conditioning contractor a service repair and maintenance contract with respect to the such systems and components. A copy of such contract and each renewal thereof shall upon issuance and thereafter not later than ten (10) days prior to expiration be furnished to Landlord together with evidence of payment therefor. Except as provided in Article 25 hereof, there shall be no allowance to Tenant for a diminution of rental value and no liability on the part of Landlord by reason of inconvenience, annoyance or injury to business arising from Landlord, Tenant or others making any repairs, alterations, additions or improvements in or to any portion of the Building or of Demised Premises, or in or to the fixtures, appurtenances or equipment thereof, and no liability upon Landlord for failure of Landlord or others to make any repairs, alterations, additions or improvements in or to any portion of the Building or of the Demised Premises, or in or to the fixtures, appurtenances or equipment thereof.

## FIXTURES & INSTALLATIONS

13. All appurtenances, fixtures, improvements, additions and other property attached to or built into the Demised Premises, whether by Landlord or Tenant or others, and whether at Landlord's expense, or Tenant's expense, or the joint expense of Landlord and Tenant, shall be and remain the property of Landlord (except for purposes of sales tax which shall remain Tenant's obligation). All trade fixtures, furniture, furnishings and other articles of movable personal property owned by Tenant and located within the Demised Premises (collectively, "Tenant's Property") may be removed from the Demised Premises by Tenant at any time during the Term. Tenant, before so removing Tenant's Property, shall establish to Landlord's reasonable satisfaction that no structural damage or change will result from such removal and that Tenant can and promptly will repair and restore any damage caused by such removal without cost or charge to Landlord. Any such repair shall itself be deemed an Alteration (as defined in Article 14 below) within the purview of this lease. Any Tenant's Property for which Landlord shall have granted any allowance, contribution or credit to Tenant shall, at Landlord's option, not be so removed. All the outside walls of the Demised Premises including corridor walls and the outside entrance doors to the Demised Premises, any balconies, terraces or roofs adjacent to the Demised Premises, and any space in the Demised Premises used for shafts, stacks, pipes, conduits, ducts, utility closets or other building facilities, and the use thereof, as well as access thereto in and through the Demised Premises for the purpose of operation, maintenance, decoration and repair, are expressly reserved to Landlord, and Landlord does not convey any rights to Tenant therein. Notwithstanding the foregoing, Tenant shall enjoy full right of access to the Demised Premises through the public entrances, public corridors and public areas within the Building.

## ALTERATIONS

14. (A) Other than Tenant's Initial Work, Tenant shall make no alterations, decorations, installations, additions or improvements (hereinafter collectively referred to as "Alterations") in or to the Demised Premises, except in compliance with the requirements of this Article 14. Tenant may make written request to Landlord that certain Alterations be made to the Demised Premises, but all such Alterations shall be performed, if at all, (i) in the sole and absolute discretion of Landlord (provided that Landlord shall exercise such discretion reasonably with respect to any proposed Alteration that is non-structural in nature, would not have any material adverse impact on any Building system and is wholly-contained within [and not visible from outside] the Demised Premises), and (ii) at the sole cost and expense of Tenant. The conditions, restrictions and requirements set forth in Article 5 of this lease with respect to performance of Tenant's Initial Work shall apply *mutatis mutandis* with respect to the approval and performance of any Alteration (and the proposed plans and specifications therefor) permitted to be performed by or on behalf of Tenant in or to the Demised Premises, except that (a) the TIW Inspection Fee payable by Tenant to Landlord or Landlord's designated contractor with respect to the subject Alteration shall be calculated at five (5%) percent of the total cost of the subject Alteration (the "Alteration Inspection Fee"), and (b) Landlord shall not be obligated to pay any Tenant's Allowance or otherwise incur any other expense with respect to the subject Alteration. Notwithstanding the foregoing, the parties agree that Tenant shall not be obligated to pay an Alteration Inspection Fee in connection with any Alteration that would not require the issuance of a building permit (e.g., painting and/or carpeting).

(B) Tenant shall not be permitted to make, or to engage a contractor or artist to make, any Alterations, decorations, installations, additions or other improvements (“Visual Alteration”) which may be considered a work of visual art of any kind, and/or which might fall within the protections of the Visual Artists Rights Act of 1990 (“VARA”) unless:

(i) Tenant obtains, from each artist and/or contractor who will be involved in said Visual Alteration, valid written waivers of such artist’s and/or contractor’s rights under VARA in form and content reasonably acceptable to Landlord; and

(ii) Landlord consents to such Visual Alteration in writing.

In the event that a claim is brought under VARA with respect to any Visual Alteration performed in or about the Building by or at the request of Tenant or Tenant’s agents or employees, Tenant shall indemnify and hold harmless Landlord against and from any and all such claims. If any action or proceeding shall be brought against Landlord by reason of such claim under VARA, Tenant agrees that Tenant, at its expense, will resist and defend such action or proceeding and will employ counsel satisfactory to Landlord therefor. Tenant shall also pay any and all damages sustained by Landlord as a result of such claim, including, without limitation, attorney’s fees and the cost to Landlord of complying with VARA protections (which shall include damages sustained as a result of Landlord’s inability to remove Visual Alterations from the Demised Premises). Failure of Tenant to strictly comply with the provisions of this Article 14(B) shall be deemed a default under this lease, and Landlord shall be entitled to pursue all appropriate remedies provided herein, as well as at law or in equity. The provisions of this Article 14(B) shall survive the expiration or sooner termination of this lease.



#### REQUIREMENTS OF LAW

15. (A) Tenant, at Tenant's sole cost and expense, shall comply with all statutes, laws, ordinances, orders, regulations and notices of Federal, State, County and Municipal authorities, and with all directions, pursuant to law, of all public officers, which shall impose any duty upon Landlord or Tenant with respect to the Demised Premises or the use or occupation thereof by Tenant or any of Tenant's Related Parties, except that Tenant shall not be required to make any structural or non-structural alterations in order so to comply unless such alterations shall be necessitated or occasioned, in whole or in part, (i) subject to the provisions of Article 26 (C) of this lease, by the negligence or willful misconduct of Tenant or any person claiming through or under Tenant or any of their servants, employees, contractors, agents, visitors or licensees, (ii) by the specific manner of use or occupancy of the Demised Premises by Tenant, or any such person (other than mere office use), or (iii) in connection with Tenant's Initial Work or any subsequent Alterations made by or on behalf of Tenant (including, without limitation, the design, implementation or performance thereof and/or the materials used in connection therewith); where, in any of such events, such alterations shall be made by Landlord at Tenant's sole, but reasonable, cost and expense. To the extent non-compliance therewith would adversely affect the ability of Tenant to use and enjoy the Demised Premises or reasonable means of access thereto, and provided such compliance is not made the responsibility of Tenant pursuant to the preceding provisions of this Article 15(A), Landlord shall comply with and shall cause the Building, the Demised Premises and the common areas of the Real Property to be in compliance with all mandatory requirements of present and future statutes, laws, ordinances, notices, rules, regulations, orders and directives of all Federal, state, city and municipal authorities applicable to the Building and common areas of the Real Property, including without limitation the Americans with Disabilities Act (ADA). However, the parties acknowledge and agree that Landlord shall not be responsible for remedying any violation condition existing within the Demised Premises as of the date of this lease if and to the extent same would be rendered moot by the demolition and/or construction aspects of the Tenant's Initial Work.

(B) Tenant shall keep or cause the Demised Premises to be kept free of Hazardous Materials (hereinafter defined). Without limiting the foregoing, Tenant shall not cause or permit the Demised Premises to be used to generate, manufacture, refine, transport, treat, store, handle, dispose, transfer, produce or process Hazardous Materials, except in compliance with all applicable Federal, State and Local laws or regulations, nor shall Tenant cause or permit, as a result of any intentional or unintentional act or omission on the part of Tenant or any person or entity claiming through or under Tenant or any of their employees, contractors, agents, visitors or licensees (collectively, "Related Parties"), a release of Hazardous Materials onto the Demised Premises or onto any other property. Tenant shall comply with and ensure compliance by all Related Parties with all applicable Federal, State and Local laws, ordinances, rules and regulations, whenever and by whomever triggered, and shall obtain and comply with, and ensure that all Related Parties obtain and comply with, any and all approvals, registrations or permits required thereunder. With respect to Hazardous Materials for which

Tenant is responsible hereunder, Tenant shall (i) conduct and complete all investigations, studies, samplings, and testing, and all remedial removal and other actions necessary to clean up and remove such Hazardous Materials, on, from, or affecting the Demised Premises (a) in accordance with all applicable Federal, State and Local laws, ordinances, rules, regulations, policies, orders and directives, and (b) to the satisfaction of Landlord, and (ii) defend, indemnify, and hold harmless Landlord, its employees, agents, officers, and directors, from and against any claims, demands, penalties, fines, liabilities, settlements, damages, costs, or expenses of whatever kind or nature, known or unknown, contingent or otherwise, arising out of, or in any way related to, (a) the presence, disposal, release, or threatened release of such Hazardous Materials which are on, from, or affecting the soil, water, vegetation, buildings, personal property, persons, animals, or otherwise; (b) any personal injury (including wrongful death) or property damage (real or personal) arising out of or related to such Hazardous Materials; (c) any lawsuit brought or threatened, settlement reached, or government order relating to such Hazardous Materials; and/or (d) any violation of laws, orders, regulations, requirements, or demands of government authorities, or any policies or requirements of Landlord which are based upon or in any way related to such Hazardous Materials, including, without limitation, reasonable attorney and consultant fees, investigation and laboratory fees, court costs, and litigation expenses. In the event this lease is terminated, or Tenant is dispossessed, Tenant shall deliver the Demised Premises to Landlord in the same environmental condition as it was in when delivered to Tenant. For purposes of this paragraph, "Hazardous Materials" includes, without limitation, any flammable explosives, radioactive materials, hazardous materials, hazardous wastes, hazardous or toxic substances, or related materials defined in the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (42 U.S.C. Sections 9601, et seq.), the Hazardous Materials Transportation Act, as amended (49 U.S.C. Sections 1801 et seq.), the Resource Conservation and Recovery Act, as amended (42 U.S.C. Sections 6901, et seq.), and in the regulations adopted and publications promulgated pursuant thereto, or any other Federal, State or Local environmental law, ordinance, rule, or regulation. Landlord's and Tenant's obligations under this Article 15 shall survive the expiration or earlier termination of the term of this lease.

(C) Landlord represents and warrants that, to its knowledge, the Demised Premises are presently free of asbestos and free of Hazardous Materials in violation of applicable law. In the event that a legal violation involving Hazardous Materials now exists or arises in the future which Tenant is not responsible for under this lease and which materially and adversely affects Tenant's use of the Demised Premises, Landlord hereby covenants to address such legal violation in the manner required by applicable law. Notwithstanding the foregoing, if the subject legal violation has been caused by the act or omission of a third party, then Landlord may seek to cause such third party to address such legal violation. In the event of a legal violation involving Hazardous Materials that was directly caused by the actions of Landlord or Landlord's employees, Landlord shall defend, indemnify and hold harmless Tenant, its employees, agents, officers and directors from and against any claims, demands, penalties, fines, liabilities, settlements, damages, costs or expenses arising therefrom.

(D) Tenant represents that, as of the date of this lease, and Tenant covenants that throughout the term of this lease: (i) Tenant is not, and shall not be, an Embargoed Person (hereafter defined); (ii) none of the funds or other assets of Tenant are or shall constitute property of, or are or shall be beneficially owned, directly or indirectly, by any Embargoed Person; (iii) no Embargoed Person shall have any interest of any nature whatsoever in Tenant, with the result that the investment in Tenant (whether directly or indirectly) is or would be blocked or prohibited by law or that this lease and performance of the obligations hereunder are or would be blocked or in violation of law; and (iv) none of the funds of Tenant are, or shall be derived from, any activity with the result that the investment in Tenant (whether directly or indirectly) is or would be blocked or in violation of law or that this lease and performance of the obligations hereunder are or would be in violation of law. "Embargoed Person" means a person, entity or government (x) identified on the Specially Designated Nationals and Blocked Persons List maintained by the United States Treasury Department Office of Foreign Assets Control and/or any similar list maintained pursuant to any authorizing statute, executive order or regulation, (y) subject to trade restrictions under United States law, including, without limitation, the International Emergency Economic Powers Act, 50 U.S.C. § 1701 et seq., The Trading with the Enemy Act, 50 U.S.C. App. 1 et seq., and any Executive Orders or regulations promulgated under any such laws, with the result that the investment in Tenant (whether directly or indirectly), is or would be prohibited by law or this lease is or would be in violation of law, and/or (z) subject to blocking, sanction or reporting under the USA Patriot Act, as amended; Executive Order 13224, as amended; Title 31, Parts 595, 596 and 597 of the U.S. Code of Federal Regulations, as they exist from time to time; and any other law or Executive Order or regulation through which the U.S. Department of the Treasury has or may come to have sanction authority. If any representation made by Tenant pursuant to this Article 15(D) shall become untrue, Tenant shall within ten (10) days give written notice thereof to Landlord, which notice shall set forth in reasonable detail the reason(s) why such representation has become untrue and shall be accompanied by any relevant notices from, or correspondence with, the applicable governmental agency or agencies.

#### END OF TERM

16. (A) Upon the expiration or other termination of the Term of this lease, Tenant shall, at its own expense, quit and surrender to Landlord the Demised Premises, broom clean, in good order and condition, ordinary wear, tear and damage by fire or other insured casualty excepted, and Tenant shall remove all of Tenant's Property and shall pay to Landlord the cost to repair all damage to the Demised Premises or the Building occasioned by such removal. All fixtures, and all paneling, partitions, railings, staircases and like installations, installed in the Demised Premises at any time, either by Tenant or by Landlord on Tenant's behalf, shall become the property of Landlord and shall remain upon and be surrendered with the Demised Premises. Unless Landlord issues prior to the Expiration Date a specific written directive (a "Retain Directive") not to remove a subject Specialty Alteration (hereinafter defined), all Specialty Alterations shall also be removed from the Demised Premises at Tenant's expense, and the affected area of the Demised Premises containing such Specialty

Alteration shall be returned to its original condition prior to expiration of the Term hereof, at Tenant's expense. Notwithstanding anything to the contrary contained in this Article 16 or elsewhere in this lease, Tenant shall not be required to remove any installations, improvements, alterations or additions that are neither Tenant's Property nor a Specialty Alteration and, moreover, Tenant shall not remove or restore any Specialty Alteration for which Landlord issues a Retain Directive. For the purposes of this lease, a "Specialty Alteration" shall mean an alteration, installation or addition consisting of kitchens (for food preparation, but specifically excluding non-cooking office pantry areas of the type then customarily found in multi-tenanted, first-class office buildings on Long Island), raised flooring, rolling file systems, safes, vaults, library systems, internal staircases (specifically excluding the internal staircase that currently connects the Plaza Level Office Premises with the Lower Level Storage Space [hereinafter defined], even where such internal staircase is relocated by Landlord in connection with a relocation of the Lower Level Storage Space), dumbwaiters, pneumatic tubes, vertical and horizontal transportation systems (specifically excluding customary data and telecommunications conduits), rooftop antenna and other alterations, installations or additions of a similar character that are not customarily found in office installations in multi-tenanted, first-class office buildings on Long Island (or, if found, are customarily required to be removed by tenants at the end of their respective lease terms). Notwithstanding the foregoing, Landlord and Tenant hereby expressly acknowledge and agree that private bathrooms (with or without shower facilities) constructed within the Demised Premises shall not constitute Specialty Alterations for purposes of this lease, and, as such, Tenant shall have no obligation to remove any such private bathroom at the end of the Term of this lease. At the time Tenant requests Landlord's consent to any Alteration, Tenant may request whether Landlord considers any portion of the proposed Alteration to be a Specialty Alteration, and if Landlord does not identify any portion of the Alteration as a Specialty Alteration, Tenant, at the expiration or earlier termination of this lease, shall not be required to remove or restore the subject Alteration or to restore the Demised Premises to the condition the same were in prior to the making thereof. Any property required to be removed but not removed from the Demised Premises shall be deemed abandoned by Tenant and may be retained by Landlord, as its property, or disposed of at Tenant's cost and expense in any manner deemed appropriate by the Landlord. Notwithstanding the foregoing, in the event that Tenant employs the use of an uninterrupted power supply system or any other battery-based equipment, Tenant shall remove such equipment prior to the expiration of the Term at its sole expense and in compliance with all applicable laws, rules and regulations. Any expense incurred by Landlord in removing or disposing of such property shall be reimbursed to Landlord by Tenant on demand. Tenant expressly waives, for itself and for any person claiming through or under Tenant, any rights which Tenant or any such person may have under the provisions of Section 2201 of the New York Civil Practice Law and Rules and of any successor law of like import then in force, in connection with any holdover or summary proceeding which Landlord may institute to enforce the foregoing provisions of this Article. Tenant's obligation to observe or perform this covenant shall survive the expiration or other termination of the Term of this lease. If the last day of the Term of this lease or any renewal hereof falls on Sunday or a legal holiday, this lease shall expire on the business day immediately preceding. Tenant's obligations under this Article 16 shall survive the Expiration Date or sooner termination of this lease.

(B) In the event of any holding over by Tenant after the expiration or termination of this lease without the consent of Landlord, Tenant shall:

(i) pay as holdover rental for each month of the holdover tenancy an amount equal to the greater of (a) the fair market rental value of the Demised Premises for such month (as reasonably determined by Landlord) or (b) one hundred fifty (150%) percent of the Rent payable by Tenant for the last month prior to the Expiration Date, and otherwise observe, fulfill and perform all of its obligations under this lease, including but not limited to, those pertaining to additional rent, in accordance with its terms; and

(ii) only to the extent the holdover exceeds sixty (60) days, be liable to Landlord for any payment or rent concession which Landlord may be required to make to any tenant in order to induce such tenant not to terminate an executed lease covering all or any portion of the Demised Premises by reason of the holdover by Tenant.

No holding over by Tenant after the Term shall operate to extend the Term.

The holdover, with respect to all or any part of the Demised Premises, of a person deriving an interest in the Demised Premises from or through Tenant, including, but not limited to, an assignee or subtenant, shall be deemed a holdover by Tenant.

Notwithstanding anything in this Article contained to the contrary, the acceptance of any Rent paid by Tenant pursuant to this Paragraph 16(B), shall not preclude Landlord from commencing and prosecuting a holdover or eviction action or proceeding or any action or proceeding in the nature thereof. The preceding sentence shall be deemed to be an "agreement expressly providing otherwise" within the meaning of Section 232-c of the Real Property Law of the State of New York and any successor law of like import.

Notwithstanding anything contained to the contrary in this lease, except as otherwise set forth in Article 16(B)(ii) above, each of Landlord and Tenant hereby waives any right to recover against the other any indirect, consequential, special, punitive or incidental damages in any cause of action, proceeding or claim arising out of, or in connection with, a holdover by Tenant.

#### QUIET ENJOYMENT

17. Landlord covenants and agrees with Tenant that upon Tenant paying the Rent and additional rent and observing and performing all the terms, covenants and conditions on Tenant's part to be observed and performed, Tenant may peaceably and quietly enjoy the Demised Premises during the Term of this lease without hindrance or molestation by anyone claiming by or through Landlord, subject, nevertheless, to the terms, covenants and conditions of this lease including, but not limited to, Article 22.

SIGNS

18. (A) Tenant shall not place any signs or lettering of any nature on or in any window or on the exterior of the Building or elsewhere within the Demised Premises such as will be visible from the street. Tenant shall not place any sign or lettering in the public corridors or on the doors (except that Landlord will install a Building-standard name plaque, bearing Tenant's name at the entrance to each component portion of the Demised Premises). Notwithstanding the foregoing, Tenant may cause to be displayed, in a manner reasonably acceptable to Landlord, Tenant's business name and logo on any glass (or Herculite) entry doors to any component portion of the Demised Premises.

(B) Notwithstanding anything to the contrary contained herein, so long as Flushing Bank then continues to lease not less than 80,000 rentable square feet of space on the Plaza Level of the Building (and without regard to whether Flushing Bank or any subtenant or subtenants of Flushing Bank is or are then actually occupying any space in the Building), Tenant shall have the following privileges with respect to signage and name display at the Demised Premises and the Real Property:

(i) [Intentionally Omitted];

(ii) Landlord will display a flag (to be provided by Tenant), bearing Tenant's business name, on an existing flag pole along the entry drive to the Real Property from Glenn Curtis Boulevard;

(iii) Tenant may either (a) install and display a set of backlit channel letters (each such letter not to exceed 36 inches in height and all such lettering not to collectively exceed 21 feet in total width), collectively displaying Tenant's business name on the interior side of the exterior glass of that portion of the Plaza Level Office Premises that faces Hempstead Turnpike or (b) install and display a sign monument (not to exceed three [3] feet in height or six [6] feet in width), bearing Tenant's business name and logo, at that portion of the exterior of the Real Property located between the Plaza Level Office Premises and Hempstead Turnpike (it being acknowledged and agreed that the respective privileges described in clauses (a) and (b) of this Article 18(B)(iii) are mutually exclusive alternatives).

Tenant hereby acknowledges and agrees that the exercise by Tenant of any of the privileges referenced in this Article 18(B) shall be subject to Tenant's procurement, at Tenant's sole cost and expense, of all applicable municipal approvals relating thereto (if any). Tenant further acknowledges and agrees that the particular size, style, design, type and content of any such sign, flag, lettering or other display shall also be subject to Landlord's prior review and approval, which approval shall not be unreasonably withheld or delayed. Tenant shall be solely responsible for the cost of designing, manufacturing, maintaining, repairing and removing (at the end of the Term or sooner, if the subject privilege hereunder becomes inapplicable during the Term due to Flushing Bank no longer leasing at least 80,000 rentable square feet of space on the Plaza Level of the Building [it being acknowledged and agreed that the question of whether Flushing Bank or any subtenant or subtenants of Flushing Bank is or are then actually occupying any space in the Building will be of no relevance in determining the continued viability of such privilege], a revocation or lapsing of a necessary municipal approval or otherwise) each such sign, flag, set of lettering, monument sign or other means of display referenced herein (as applicable).

## RULES AND REGULATIONS

19. Tenant and Tenant's agents, employees, visitors, and licensees shall faithfully observe and comply with, and shall not permit violation of, the Rules and Regulations set forth on Schedule C annexed hereto and made part hereof, and with such further reasonable Rules and Regulations as Landlord at any time may make and communicate in writing to Tenant which, in Landlord's judgment, shall be necessary for the reputation, safety, care and appearance of the Building and the land allocated to it or the preservation of good order therein, or the operation or maintenance of the Building, and such land, its equipment, or the more useful occupancy or the comfort of the tenants or others in the Building. Landlord shall not be liable to Tenant for the violation of any of said Rules and Regulations, or the breach of any covenant or condition, in any lease by any other tenant in the Building.

## RIGHT TO SUBLET OR ASSIGN

20. (A) Tenant covenants that it shall not assign this lease nor sublet the Demised Premises or any part thereof by operation of law or otherwise, including, without limitation, an assignment or subletting as defined in (D) below, without the prior written consent of Landlord in each instance, such consent not to be unreasonably withheld or delayed. Tenant may assign this lease or sublet all or a portion of the Demised Premises with Landlord's written consent, provided:

(i) That such assignment or sublease is for a use which is in compliance with this lease and the then existing zoning regulations and the Certificate of Occupancy;

- (ii) That, at the time of such assignment or subletting, there is no Event of Default under the terms of this lease on the Tenant's part;
- (iii) That, in the event of an assignment, the assignee shall assume in writing the performance of all of the terms and obligations of the within lease;
- (iv) That a duplicate original of said assignment or sublease shall be delivered by certified mail, hand delivery or nationally recognized overnight courier to the Landlord at the address herein set forth within ten (10) days from the said assignment or sublease and within ninety (90) days of the date that Tenant first advises Landlord of the name and address of the proposed subtenant or assignee, as required pursuant to subparagraph (B) hereof;
- (v) Such assignment or subletting shall not, however, release the within Tenant or any successor tenant or any guarantor from their liability for the full and faithful performance of all of the terms and conditions of this lease;
- (vi) If this lease is assigned, whether or not in violation of the provisions of this lease, Landlord may collect rent from the assignee. If the Demised Premises or any part thereof is sublet or is used or occupied by anybody other than Tenant, whether or not in violation of this lease, Landlord may, after default by Tenant, and expiration of Tenant's time to cure such default, collect rent from the subtenant or occupant. In either event, Landlord may apply the net amount collected to the rents herein reserved, but no such assignment, subletting, occupancy or collection shall be deemed a waiver of any of the provisions of this Article, or the acceptance of the assignee, subtenant or occupant as tenant, or a release of Tenant from the further performance by Tenant of Tenant's obligations under this lease. The consent by Landlord to assignment, mortgaging, subletting or use or occupancy by others shall not in any way be considered to relieve Tenant from obtaining the express written consent of Landlord to any other or further assignment, mortgaging or subletting or use or occupancy by others not expressly permitted by this Article. References in this lease to use or occupancy by others, that is anyone other than Tenant, shall not be construed as limited to subtenants and those claiming under or through sub-tenants but as including also licensees and others claiming under or through Tenant, immediately or remotely;
- (vii) That, in the event Tenant shall request Landlord's consent to a proposed assignment of this lease or proposed sublease of all or a portion of the Demised Premises, Tenant shall pay or reimburse to Landlord the reasonable attorney fees incurred by Landlord in processing such request;
- (viii) Tenant has not and shall not (a) publicize the availability of the Demised Premises, or (b) list the Demised Premises to be assigned or sublet with a broker, agent or other entity or otherwise offer the Demised Premises for subletting at a rental rate of less than the aggregate fixed rent and additional rent at which Landlord is then offering to lease other space in the Building, determined as though the Demised Premises were vacant and in their then "as is" condition, and taking into account the length of the term of the proposed sublease and the location of the Demised Premises in the Building; and



(ix) That each sublease shall be subject and subordinate to this lease and to the matters to which this lease is or shall be subordinate, it being the intention of Landlord and Tenant that Tenant shall assume and be liable to Landlord for any and all acts and omissions of all subtenants and anyone claiming under or through any subtenants which, if performed or omitted by Tenant, would be a default under this lease; and Tenant and each subtenant shall be deemed to have agreed that upon the occurrence and during the continuation of an Event of Default hereunder, Tenant has hereby assigned to Landlord, and Landlord may, at its option, accept such assignment of, all right, title and interest of Tenant as sublandlord under such sublease, together with all modifications, extensions and renewals thereof then in effect, and such subtenant shall, at Landlord's option, attorn to Landlord pursuant to the then executory provisions of such sublease, except that Landlord shall not be (a) liable for any previous act or omission of Tenant under such sublease, (b) subject to any counterclaim, offset or defense not expressly provided in such sublease, which theretofore accrued to such subtenant against Tenant, (c) bound by any previous modification of such sublease not consented to by Landlord, or by any prepayment of more than one month's rent and additional rent under such sublease, (d) bound to return such subtenant's security deposit, if any, except to the extent that Landlord shall receive actual possession of such deposit and such subtenant shall be entitled to the return of all or any portion of such deposit under the terms of its sublease, or (e) obligated to make any payment to or on behalf of such subtenant, or to perform any work in the subleased space or the Building, or in any way to prepare the subleased space for occupancy, beyond Landlord's obligations under this Lease. The provisions of this Article 20(A)(ix) shall be self-operative, and no further instrument shall be required to give effect hereto, provided that the subtenant shall execute and deliver to Landlord any instruments Landlord may reasonably request to evidence and confirm such subordination and attornment.

(B) Notwithstanding anything contained in this Article 20 to the contrary, no assignment of this lease or subletting, in the aggregate, of more than eighty (80%) percent of the usable area of the Demised Premises shall be made by Tenant in any event until Tenant has offered to terminate this lease as of the last day of any calendar month during the Term hereof and to vacate and surrender the Demised Premises to Landlord on the date fixed in the notice served by Tenant upon Landlord (which date shall be prior to the date of such proposed assignment or the commencement date of such proposed lease). Simultaneously with said offer to terminate this lease, Tenant shall advise the Landlord, in writing, of the name and address of the proposed assignee or subtenant, a reasonably detailed statement of the proposed subtenant/assignee's business (which must be of a character and use consistent with other tenants in the Building), reasonably detailed financial references, and all the terms, covenants, and conditions of the proposed sublease or assignment. Landlord hereby acknowledges and agrees that Tenant shall not be required to have consummated a formal assignment agreement or formal sublease agreement prior to delivering the aforesaid offer to terminate this lease. If Landlord does not issue a written notice of acceptance of Tenant's offer to terminate this lease within ten (10) business days after receipt thereof from Tenant, then Landlord shall be deemed to have elected not to accept such offer.

(C) Tenant, without Landlord's consent (but upon prior written notice to Landlord), may assign or transfer its entire interest in this lease and the leasehold estate hereby created to an "affiliate" of Tenant or to a "successor corporation" of Tenant, as such terms are hereinafter defined, provided that (i) an Event of Default under this Lease shall not then exist; (ii) the assignee agrees, in a signed writing in form and substance acceptable to Landlord, to assume all obligations and liabilities of Tenant under this lease; and (iii) the assignor shall not be released or relieved from or of any liabilities or obligations of Tenant under this lease, whether relating to actions, omissions or events occurring prior to or after the effective date of the assignment. An "affiliate" of Tenant shall mean any corporation which directly or indirectly controls or is controlled by or is under common control with Tenant. For purposes of this definition, "control" (including "controlling," "controlled by" and "under common control with") as used with respect to any corporation, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such corporation, whether through the ownership of voting securities, or by contract or otherwise. A "successor corporation" shall mean (a) a corporation into which or with which Tenant, its corporate successors or assigns, is merged or consolidated, in accordance with applicable statutory provisions for the merger or consolidation of corporations, provided that by operation of law or by effective provisions contained in the instruments of merger or consolidation the liabilities of the corporations participating in such merger or consolidation are assumed by the corporation surviving such merger or consolidation, or (b) a corporation acquiring this lease and the term hereby demised, the goodwill and all or substantially all of the other property and assets of Tenant, its corporate successors or assigns, and assuming all or substantially all of the liabilities of Tenant, its corporate successors and assigns, or (c) any corporate successor to a successor corporation becoming such by either of the methods described in Clauses (a) and (b); provided that, immediately after giving effect to any such merger or consolidation, or such acquisition and assumption as the case may be, the corporation surviving such merger or created by such consolidation or acquiring such assets and assuming such liabilities, as the case may be, shall have assets, capitalization, and a net worth as determined in accordance with generally accepted principles of accounting at least to Fifty Million Dollars (\$50,000,000). The acquisition by Tenant, its corporate successors or assigns, of all or substantially all of the assets, together with the assumption of all or substantially all of the obligations and liabilities of any corporation, shall be deemed to be a merger of such corporation into Tenant for the purpose of this provision. As used in this provision, the words "corporation", "corporate" and similar words shall include other business forms such as limited liability companies, and the words "voting stock" and "voting securities" shall include other forms of ownership such as limited liability company membership interests.

(D) For purposes of this Article 20, but subject to Article 20(C), (i) the transfer of a majority of the issued and outstanding capital stock of any corporate tenant, or of a corporate subtenant, or the transfer of a majority of the total equitable ownership interests in any tenant or subtenant of another business form, however accomplished, whether in a single transaction or in a series of related or unrelated transactions, shall be deemed an assignment of this lease, or of such sublease, as the case may be; (ii) any person or legal representative of Tenant, to whom Tenant's interest under this lease passes by operation of law or otherwise, shall be bound by the provisions of this Article 20; and (iii) a modification or amendment of a sublease shall be deemed a sublease.

(E) Whenever Tenant shall claim under this Article or any other part of this lease that Landlord has unreasonably withheld or delayed its consent to some request of Tenant, Tenant shall have no claim for damages by reason of such alleged withholding or delay, and Tenant's sole remedy thereof shall be a right to obtain specific performance or injunction but in no event with recovery of damages.

(F) Tenant shall not mortgage, pledge, hypothecate or otherwise encumber its interest under this lease without Landlord's prior written consent.

(G) Without affecting any of its other obligations under this lease, except with respect to any permitted assignment or subletting under Article 20 (C) hereof, Tenant will pay to Landlord, as additional rent, one-half (50%) of any sums or other economic consideration, which (i) are due and payable to Tenant as a result of any permitted assignment or subletting whether or not referred to as rentals under the assignment or sublease (after deducting therefrom the reasonable costs and expenses incurred by Tenant in connection with the assignment or subletting in question); and (ii) with respect to a sublease only, exceed in total the sums which Tenant is obligated to pay Landlord under this lease (prorated to reflect obligations allocable to that portion of the Demised Premises subject to such assignment or sublease), it being the express intention of the parties that Landlord and Tenant shall share equally in any profit by reason of such sublease or assignment. The failure or inability of the assignee or subtenant to pay rent pursuant to the assignment or sublease will not relieve Tenant from its obligations to Landlord under this Article 20 (G). Tenant will not amend the assignment or sublease in such a way as to reduce or delay payment of amounts which are provided in the assignment or sublease approved by Landlord.

(H) Landlord agrees that it shall not unreasonably withhold its consent to a subletting or assignment in accordance with the terms of this Article 20. In determining reasonableness, there shall be taken into account the character and reputation of the proposed subtenant or assignee, the specific nature of the proposed subtenant's or assignee's business and whether same is in keeping with other tenancies in the Building; the financial standing of the proposed subtenant or assignee; and the impact of all of the foregoing upon the Building and the other tenants of Landlord therein. Landlord shall not be deemed to have unreasonably withheld its consent if it refuses to consent to a subletting or assignment to an existing tenant in any building which is owned or operated by Landlord or its affiliate or to a proposed subtenant or assignee with whom Landlord or any such affiliate is negotiating (or had been negotiating within the preceding year), or, if at the time of Tenant's request, there then exists an Event of Default on the part of Tenant under this lease. At least thirty (30) days prior to any proposed subletting or assignment, Tenant shall submit to Landlord a written notice of the proposed subletting or assignment, which notice shall contain or be accompanied by the following information:

- (i) the name and address of the proposed subtenant or assignee;
- (ii) the nature and character of the business of the proposed subtenant or assignee and its proposed use of the premises to be demised;
- (iii) the most recent three (3) years of balance sheets and profit and loss statements of the proposed subtenant or assignee or other financial information reasonably satisfactory to Landlord; and
- (iv) such shall be accompanied by a copy of the proposed sublease or assignment of lease.

(I) Without limiting the right of Landlord to withhold its consent to any proposed assignment of this lease or subletting of all or any portion of the Demised Premises, Tenant specifically acknowledges and agrees that it and anyone holding through Tenant shall not sublet or assign all or any portion of the Demised Premises to any subtenant or assignee who will use the Demised Premises or a portion thereof for any of the following designated uses nor for any other use which is substantially similar to any one of the following designated uses:

- (i) federal, state or local governmental division, department or agency which generates heavy public traffic, including, without limitation, court, social security offices, labor department office, drug enforcement agency, motor vehicle agency, postal service, military recruitment office;
- (ii) union or labor organization;
- (iii) office for the practice of medicine, dentistry or the rendering of other health related services;
- (iv) chemical or pharmaceutical company, provided, however, that the subletting or assignment to such a company which will use the premises only for executive, general and sales offices and waive the right to conduct any research and development shall not be prohibited;
- (v) insurance claims office, including, but not limited to, unemployment insurance or worker's compensation insurance; or

(vi) securities brokerage firm engaged in a Boiler Room Operation (hereinafter defined). The parties acknowledge and agree that, for purposes of this lease, Tenant shall be deemed to be engaged in a "Boiler Room Operation" where any of the following is true: (a) the majority of the securities sold or purchased, or solicited for offers of sale or purchase, in connection with Tenant's business at the Demised Premises are so-called "penny stocks"; (b) the population density of the Demised Premises is greater than one (1) person per 150 square feet of rentable area of the Demised Premises; or (c) Tenant is subject to the requirements of the National Association of Securities Dealers (NASD) "Taping Rule" (i.e., NASD Rule 3010).

#### LANDLORD'S ACCESS TO PREMISES

21. (A) Landlord or Landlord's agents shall have the right to enter and/or pass through the Demised Premises at all reasonable times on reasonable notice, except in an emergency, to examine the same, and to show them to ground lessors, prospective purchasers or lessees or mortgagees of the Building, and to make such repairs, improvements or additions as Landlord may deem necessary or desirable, and Landlord shall be allowed to take all material into and upon and/or through said Demised Premises that may be required therefor. During the twelve (12) months prior to the expiration of the Term of this lease, or any renewal term, Landlord may, on reasonable notice, exhibit the Demised Premises to prospective tenants or purchasers at all reasonable hours and without unreasonably interfering with Tenant's business. If Tenant shall not be personally present to open and permit an entry into said premises at any time, when for any reason an entry therein shall be necessary or permissible, Landlord or Landlord's agents may enter the same by a master key, or forcibly, without rendering Landlord or such agent liable therefor (if during such entry Landlord or Landlord's agents shall accord reasonable care to Tenant's property). In exercising any right of access to the Demised Premises, Landlord shall use commercially reasonable efforts to minimize the scope and duration of any interference with the operation of Tenant's business in the Demised Premises that may result from such exercise; provided, however, that the foregoing shall not be construed as to obligate Landlord to employee overtime labor the exercise of such access unless Tenant agrees to directly reimburse Landlord for the additional costs associated therewith. Also in exercising any right of access to the Demised Premises, Landlord shall reasonably cooperate with Tenant's reasonable security requirements. Without limiting the generality of the foregoing, Tenant may require that, in making any non-emergency entry upon the Demised Premises, the subject representative of Landlord must be accompanied by a designated representative of Tenant while within the Demised Premises. Also without limiting the generality of the foregoing, Tenant shall have the right and option of designating certain secure areas within the Demised Premises, access to which by Landlord, its agents or contractors would be strictly prohibited except in the event of an emergency (it being agreed that Landlord shall have no obligation to provide janitorial services to any such secure area designated by Tenant).

(B) Landlord shall also have the right, at any time, to change the arrangement and/or location of entrances or passageways, doors and doorways, and corridors, elevators, stairs, toilets, or other public parts of the Building, provided, however, that Landlord shall make no change in the arrangement and/or location of entrances or passageways or other public parts of the Building which will adversely affect in any material manner Tenant's use and enjoyment of the Demised Premises. Landlord shall also have the right, at any time, to name the Building, including, but not limited to, the use of appropriate signs and/or lettering on any or all entrances to the Building, and to change the name, number or designation by which the Building is commonly known.

(C) Neither this lease nor any use by Tenant shall give Tenant any right or easement to the use of any door or passage or concourse connecting with any other building or to any public conveniences, and the use of such doors and passages and concourse and of such conveniences may be regulated and/or discontinued at any time and from time to time by Landlord without notice to Tenant.

(D) The exercise by Landlord or its agents of any right reserved to Landlord in this Article shall not constitute an actual or constructive eviction, in whole or in part, or entitle Tenant to any abatement or diminution of rent, or relieve Tenant from any of its obligations under this lease, or impose any liability upon Landlord, or its agents, or upon any lessor under any ground or underlying lease, by reason of inconvenience or annoyance to Tenant, or injury to or interruption of Tenant's business, or otherwise.

## SUBORDINATION

22. (A) This lease and all rights of Tenant hereunder are, and shall be, subject and subordinate in all respects to all ground leases and/or underlying leases and to all mortgages and building loan agreements which may now or hereafter be placed on or affect such leases and/or the Real Property of which the Demised Premises form a part, or any part or parts of such Real Property, and/or Landlord's interest or estate therein, and to each advance made and/or hereafter to be made under any such mortgages, and to all renewals, modifications, consolidations, replacements and extensions thereof and all substitutions therefor. This Section A shall be self-operative and no further instrument of subordination shall be required. In confirmation of such subordination, Tenant shall execute and deliver promptly any certificate that Landlord and/or any mortgagee and/or the lessor under any ground or underlying lease and/or their respective successors in interest may request.

(B) Without limitation of any of the provisions of this lease, in the event that any mortgagee or holder of any security instrument ("Successor Landlord") or its assigns shall succeed to the interest of Landlord or of any successor-Landlord and/or shall have become lessee under a new ground or underlying lease, then, at the option of such mortgagee, this lease shall nevertheless continue in full force and effect and Tenant shall and does hereby agree to attorn to such mortgagee or its assigns and to recognize such mortgagee or its respective assigns as its Landlord; provided, however, that such Successor Landlord or successor in interest shall not be bound by (i) any payment of Rents, charges or any other rents for more than one (1) month in advance except prepayments in the nature of security for the performance by Tenant of its obligations under this lease, (ii) any amendment or modification of this lease, or any waiver of the terms of this lease, made without the written consent of such Successor Landlord (provided that such Successor Landlord is listed as a notice party in this lease or in an applicable SNDA [hereinafter defined] to which Tenant is a party) unless the same is permitted pursuant to the terms of the subject mortgage and related loan documents, (iii) any offset right that Tenant may have against any former Landlord relating to any event or occurrence before the date of attornment, including any claim for damages of any kind whatsoever as the result of any breach by a former Landlord that occurred before the date of attornment. The foregoing shall not limit either (1) Tenant's right to exercise against Successor Landlord any offset right otherwise available to Tenant because of events occurring after the date of attornment or (2) Successor Landlord's obligation to correct any conditions that existed as of the date of attornment and violate Successor Landlord's obligations as landlord under this lease; (iv) any obligation (1) to pay Tenant any sum(s) that any former Landlord owed to Tenant unless such sums, if any, shall have actually been delivered to Successor Landlord by way of an assumption of escrow accounts or otherwise; (2) with respect to any security deposited with a former Landlord, unless such security was actually delivered to such Successor Landlord; (3) to commence or complete any initial construction of improvements in the Demised Premises or any expansion or rehabilitation of existing improvements thereon; (4) to reconstruct or repair improvements following a fire, casualty or condemnation; or (5) arising from representations and warranties related to a former Landlord; or (v) any consensual or negotiated surrender, cancellation, or termination of this lease, in whole or in part, agreed upon between former Landlord and Tenant, unless effected unilaterally by Tenant pursuant to the express terms of this lease or consented to in writing by Successor Landlord. Upon request by such Successor Landlord, whether before or after the enforcement of its remedies, Tenant shall execute and deliver an instrument or instruments confirming and evidencing the attornment herein set forth, and in the event that Tenant fails to do so within ten (10) days after written request, Tenant hereby irrevocably appoints Landlord as Tenant's agent and attorney-in-fact for the purpose of executing, acknowledging and delivering any such instruments and certificates. In the event of any conflict between the provisions of this Article 22(B) and the provisions of an applicable SNDA, the provisions of the applicable SNDA shall control.

(C) Tenant shall, at any time and from time to time, within ten (10) days after Landlord's request therefor, execute and deliver to Landlord a statement in writing (i) certifying that this lease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as modified and stating the modification); (ii) certifying the dates to which the Rent, additional rent and other charges have been paid; (iii) certifying whether any installments of Rent, additional rent or other charges under this lease have been paid more than thirty (30) days in advance; (iv) stating whether or not Landlord is in default in performance of any covenant, agreement, term, provision or condition contained in this lease, and if so, specifying each such default; (v) confirming the Rent Commencement Date and the scheduled Expiration Date under this lease; (vi) setting forth the amount of the Security Deposit then being held by Landlord, if any; (vii) certifying the amount of the then-current monthly Rent payments under this lease; (viii) certifying the terms of any remaining options of Tenant under this lease, including, to the extent applicable, any renewal, expansion (which, for purposes of this clause, shall be deemed to include any right of first refusal, right of offer and similar right to lease additional space), relocation, partial surrender, cancellation, purchase and similar options, if any; (ix) certifying that this lease has not been assigned by Tenant (or if any assignment has occurred, setting forth the date and material terms of such assignment and the identity of the parties thereto); (x) certifying that Tenant then occupies the entire Demised Premises and that no portion thereof has been sublet to any person or entity (or if any subletting has occurred, setting forth the date and material terms of such sublease and the identity of the parties thereto); and (xi) containing such other information as to the status of this lease as Landlord shall reasonably request. Tenant hereby acknowledges that the statement delivered pursuant hereto may be relied upon by any prospective purchaser or lessee of the Real Property or any interest or estate therein, any mortgagee or prospective mortgagee thereof, or any prospective assignee of any mortgage thereof. If, in connection with obtaining financing for the Real Property, a banking, insurance or other recognized institutional lender shall request reasonable modifications in this lease as a condition to such financing, Tenant will not unreasonably withhold, delay or defer its consent thereof, provided that such modifications do not increase the obligations of Tenant hereunder or adversely affect the leasehold interest hereby created. If, in connection with such financing, such institutional lender shall require financial audited information on the Tenant, Tenant shall promptly comply with such request by providing the most current available prepared financial audited information.

(D) The Tenant covenants and agrees that if by reason of a default under any underlying lease (including an underlying lease through which the Landlord derives its leasehold estate in the Demised Premises), such underlying lease and the leasehold estate of the Landlord in the Demised Premises is terminated, provided notice has been given to the Tenant and leasehold mortgagee, the Tenant will attorn to the then holder of the reversionary interest in the Demised Premises or to anyone who shall succeed to the interest of the Landlord or to the lessee of a new underlying lease entered into pursuant to the provisions of such underlying lease, and will recognize such holder and/or such lessee as the Tenant's landlord under this lease. The Tenant agrees to execute and deliver, at any time and from time to time, upon the request of the Landlord or of the lessor under any such underlying lease, any instrument which may be necessary or appropriate to evidence such attornment. The Tenant further waives the provision of any statute or rule of law now or hereafter in effect which may give or purport to give the Tenant any right of election to terminate this lease or to surrender possession of the Demised Premises in the event any proceeding is brought by the lessor under any underlying lease to terminate the same, and agrees that unless and until any such lessor, in connection with any such proceeding, shall elect to terminate this lease and the rights of the Tenant hereunder, this lease shall not be affected in any way whatsoever by any such proceeding. In the event of any conflict between the provisions of this Article 22 (D) and the provisions of an applicable SNDA, the provisions of the applicable SNDA shall control.



(E) Provided that such Lienholder (as defined herein) is listed as a notice party to this Lease or in an applicable SNDA, Tenant will give the owners or holders of any mortgage, deed of trust or security agreement ("Lienholder"), by registered mail, a copy of any notice of default Tenant serves on Landlord which could result in a right of termination under this lease or could result in the exercise by Tenant of any abatement right or right of offset, provided that Landlord or Lienholder previously notified Tenant (by way of notice of assignment of rents and leases or otherwise) of the address of Lienholder. Tenant further agrees that if Landlord fails to cure such default within the time provided for in this lease, then Tenant will provide written notice of such failure to Lienholder and Lienholder will have an additional thirty (30) days within which to cure the default. Lienholder shall have no obligation to cure (and shall have no liability or obligation for not curing) any breach or default by Landlord, except to the extent that Lienholder agrees or undertakes otherwise in writing. If the default cannot be cured within the additional thirty (30) day period, then Lienholder will have such additional time as may be necessary to effect the cure if, within the thirty (30) day period, Lienholder has commenced and is diligently pursuing the cure (including without limitation commencing foreclosure proceedings if necessary to effect the cure). In the event of any conflict between the provisions of this Article 22(E) and the provisions of an applicable SNDA, the provisions of the applicable SNDA shall control.

(F) Within thirty (30) days following the full execution and delivery of this lease, Landlord shall cause the current mortgagee of Landlord's interest in the Building to offer to enter into with Tenant a subordination, non-disturbance and attornment agreement ("SNDA"), on such mortgagee's standard form. Landlord will pay the initial processing fee imposed by the mortgagee in connection with the issuance of such SNDA, but Tenant shall be solely responsible for the payment of any attorneys' fees and similar charges imposed by Landlord's mortgagee (or its counsel) in connection with the negotiation of such an SNDA. In the event Landlord is unable to obtain from its current mortgagee an SNDA in favor of Tenant, this lease shall continue in full force, pursuant to all of its terms (including, without limitation, those terms set forth in Articles 22(A) through 22(E), above). Also, in connection with any new mortgage that may be hereafter granted by Landlord, Landlord shall cause such future mortgagee of Landlord's interest in the Building to then offer to enter into with Tenant an SNDA, on such mortgagee's standard form. However, in the event Landlord is unable to obtain from any future mortgagee an SNDA in favor of Tenant, this lease shall continue in full force, but Tenant's leasehold interest derived through this lease shall not be subordinate to the lien of such future mortgage. In the event of any conflict or inconsistency between the provisions of this lease and the provisions of a valid, fully-executed SNDA, the provisions of the valid, fully-executed SNDA shall control as between the parties to that SNDA.

## PROPERTY LOSS, DAMAGE REIMBURSEMENT

23. Landlord or its agents shall not be liable for any damages to property of Tenant or of others entrusted to employees of the Building, nor for the loss of or damage to any property of Tenant by theft or otherwise, unless resulting from the negligence or willful misconduct of Landlord or its agents, servants or employees (subject, however, to the provisions of this lease relating to waivers of claims and waivers of subrogation and further subject to the provisions of Articles 16(B) and 33 (regarding limitations on damages)). Landlord or its agents shall not be liable for any injury or damage to persons or property resulting from fire, explosion, falling plaster, steam, gas, electricity, electrical disturbance, water, rain or snow or leaks from any part of the Building or from the pipes, appliances or plumbing works or from the roof, street or subsurface or from any other place or by dampness or by any other cause of whatsoever nature, unless caused by or due to the negligence of Landlord, its agents, servants or employees; nor shall Landlord or its agents be liable for any such damage caused by other tenants or persons in the Building or caused by operations in construction of any private, public or quasi-public work; nor shall Landlord be liable for any latent defect in the Demised Premises or in the Building (provided, however, that if the subject latent defect has a material adverse impact upon the ability of Tenant to use and enjoy the Demised Premises, then Landlord shall use commercially reasonable efforts to promptly cure the same at no cost to Tenant [except if an to the extent same was caused by or related to the design or performance of the Tenant's Initial Work or any subsequent Alteration made by or on behalf of Tenant]). If at any time any windows of the Demised Premises are temporarily closed or darkened incident to or for the purpose of repairs, replacements, maintenance and/or cleaning in, on, to or about the Building or any part or parts thereof, Landlord shall not be liable for any damage Tenant may sustain thereby and Tenant shall not be entitled to any compensation therefor nor abatement of rent nor shall the same release Tenant from its obligations hereunder nor constitute an eviction. Tenant shall reimburse and compensate Landlord as additional rent for all expenditures (including, without limitation, reasonable attorneys' fees) made by, or damages or fines sustained or incurred by, Landlord due to non-performance or non-compliance with or breach or failure to observe any term, covenant or condition of this lease upon Tenant's part to be kept, observed, performed or complied with. Tenant shall give immediate notice to Landlord in case of fire or accidents in the Demised Premises or in the Building or of defects therein or in any fixtures or equipment.

## TENANT'S INDEMNITY

24. Tenant shall indemnify and save harmless Landlord and Landlord's Others In Interest (hereinafter defined) against and from any and all claims by or on behalf of any person or persons, firm or firms, corporation or corporations (including Landlord) arising from the conduct or management of or from any work or other thing whatsoever done (other than by Landlord or its contractors or the agents or employees of either) in and on the Demised Premises during any period of occupancy by Tenant including, without limitation, the Term of this lease and during the period of time, if any, prior to the specified commencement date that Tenant may have been given access to the Demised Premises for the purpose of making installations, and will further indemnify and save harmless Landlord and Landlord's Others In Interest against and from any and all claims or losses arising from any condition of the Demised Premises or Tenant's occupancy thereof due to or arising from any act or omissions or negligence of Tenant or any of its agents, contractors, servants, employees, licensees or invitees and against and from all costs, expenses, and liabilities incurred in connection with any such claim or loss or action or proceeding brought thereon (including reasonable attorney fees and costs); and in case any action or proceeding be brought against Landlord by reason of any such claim or loss, Tenant, upon notice from Landlord or Landlord's Others In Interest, agrees that Tenant, at Tenant's expense, will resist or defend such action or proceeding and will employ counsel therefor reasonably satisfactory to Landlord. Without limiting the generality of the foregoing, the indemnification obligations of Tenant under this lease shall specifically extend to any and all claims, causes of action, damages, losses, liabilities, costs and expenses (including, without limitation, reasonable attorneys' fees and disbursements) arising out of or relating to any death, bodily injury or property damage purportedly occurring within, from or about the retail bank branch, if any, operated by Tenant at the Plaza Level Bank Branch Premises or the ATM's operated by Tenant anywhere in the Building. As used throughout this lease, the term "Landlord's Others In Interest" shall mean the owner of the Real Property (if other than Landlord), Landlord's managing agent, Landlord's asset manager and the holder of any mortgage on the Building or Real Property. Tenant's obligations under this Article 24 shall survive the expiration or earlier termination of the Term of this lease.

DESTRUCTION - FIRE OR OTHER CASUALTY

25. (A) If the Demised Premises or any part thereof shall be damaged by fire or other casualty, then Tenant shall give prompt notice thereof to Landlord and Landlord shall proceed with reasonable diligence to repair or cause to be repaired such damage. The Rent and all additional rent shall be abated to the extent that the Demised Premises shall have been rendered untenable, such abatement to be from the date of such damage or destruction to the date the Demised Premises shall be substantially repaired or rebuilt, in proportion which the area of the part of the Demised Premises so rendered untenable bears to the total area of the Demised Premises.

(B) (i) If thirty (30%) percent or more of the usable area of the Demised Premises is damaged or otherwise rendered long-term unusable by fire or other casualty occurring during the last eighteen (18) months of the Term, then Tenant shall have the right and option to terminate this lease as of the date of the casualty, which option shall be exercised by Tenant, if at all, by written notice to Landlord given within thirty (30) days following the date of the subject fire or other casualty. If thirty (30%) percent or more of the usable area of the Demised Premises is damaged or otherwise rendered long-term unusable by fire or other casualty occurring at any other time during the Term, then within ninety (90) days following the date of the subject fire or other casualty, Landlord shall advise Tenant of Landlord's contractor's estimate as to the time that will be required to substantially complete Landlord's restoration obligations with respect to the Demised Premises. If such estimated time exceeds twelve (12) months from the date of the casualty, then Tenant shall have the right to terminate this lease by written notice delivered to Landlord within fifteen (15) days following the date on which Landlord first advises Tenant of Landlord's contractor's estimate. In addition, in such event, and without regard to such estimated time for restoration, if Landlord has not actually substantially completed its restoration obligations with respect to the Demised Premises by the date (the "Trigger Date") that is twelve (12) months following the date of occurrence of the subject fire or other casualty, then Tenant shall have the right to terminate this lease by written notice delivered to Landlord within fifteen (15) days following the Trigger Date. In the case of proper exercise of any termination right afforded to Tenant under this Article 25(B)(i), this lease shall terminate as of the date of delivery of such written notice by Tenant, and neither party shall have any further obligation or liability to the other hereunder (except for obligations or liabilities previously accrued which remain unsatisfied).

(ii) If thirty (30%) percent or more of the usable area of the Plaza Level Bank Branch Premises is damaged or otherwise rendered long-term unusable by fire or other casualty occurring during the last eighteen (18) months of the Term (where such fire or other casualty does not damage or render long term unusable the balance of the Demised Premises), then Tenant shall have the right and option to terminate this lease, solely as it relates to the Plaza Level Bank Branch Premises, as of the date of the casualty, which option shall be exercised by Tenant, if at all, by written notice to Landlord given within thirty (30) days following the date of the subject fire or other casualty. If thirty (30%) percent or more of the usable area of the Plaza Level Bank Branch Premises is damaged or otherwise rendered long-term unusable by fire or other casualty occurring at any other time during the Term (where such fire or other casualty does not damage or render long term unusable the balance of the Demised Premises), then within ninety (90) days following the date of the subject fire or other casualty, Landlord shall advise Tenant of Landlord's contractor's estimate as to the time that will be required to substantially complete Landlord's restoration obligations with respect to the Plaza Level Bank Branch Premises. If such estimated time exceeds twelve (12) months from the date of the casualty, then Tenant shall have the right to terminate this lease (solely as it relates to the Plaza Level Bank Branch Premises) by written notice delivered to Landlord within fifteen (15) days following the date on which Landlord first advises Tenant of Landlord's contractor's estimate. In addition, in such event, and without regard to such estimated time for restoration, if Landlord has not actually substantially completed its restoration obligations with respect to the Plaza Level Bank Branch Premises by the date (the "PLBBP Trigger Date") that is twelve (12) months following the date of occurrence of the subject fire or other casualty, then Tenant shall have the right to terminate this lease (solely as it relates to the Plaza Level Bank Branch Premises) by written notice delivered to Landlord within fifteen (15) days following the PLBBP Trigger Date. In the case of proper exercise of any termination right afforded to Tenant under this Article 25(B)(ii), this lease shall be deemed to have been modified and amended so as to terminate the leasehold interest of Tenant solely as it relates to the Plaza Level Bank Branch Premises, as of the date of delivery of such written notice by Tenant, and neither party shall have any further obligation or liability to the other hereunder with respect to the Plaza Level Bank Branch Premises (except for obligations or liabilities previously accrued which remain unsatisfied), and the Rent payable for the Demised Premises shall be reduced on a pro rata basis (taking into account the respective deemed rentable areas of the Plaza Level Bank Branch Premises, individually, and the Demised Premises, as a whole) so as to account for the removal of the Plaza Level Bank Branch Premises from the Demised Premises hereunder. In such event, at the request of either party, Landlord and Tenant shall enter into an amendment of this lease so as to confirm by express written agreement the effect of the aforesaid lease modifications.

(C) If the Demised Premises shall be totally damaged or rendered wholly untenable by fire or other casualty or if the Building shall be so damaged by fire or other casualty that substantial alteration or reconstruction of the Building shall, in Landlord's opinion, be required (whether or not the Demised Premises shall have been damaged by such fire or other casualty), then in any of such events Landlord may, at its option, terminate this lease and the Term and estate hereby granted, by giving Tenant thirty (30) days' notice of such termination within ninety (90) days after the date of such damage. In the event that such notice of termination shall be given, this lease and the Term and estate hereby granted, shall terminate as of the date provided in such notice of termination (whether or not the Term shall have commenced) with the same effect as if that were the Expiration Date, and the Rent and additional rent shall be apportioned as of such date or sooner termination and any prepaid portion of Rent and additional rent for any period after such date shall be refunded by Landlord to Tenant.

(D) Landlord shall not be liable for any inconvenience or annoyance to Tenant or injury to the business of Tenant resulting in any way from such damage by fire or other casualty or the repair thereof. Landlord will not carry insurance of any kind on Tenant's property, and Landlord shall not be obligated to repair any damage thereto or replace the same.

(E) This lease shall be considered an express agreement governing any case of damage to or destruction of the Building or any part thereof by fire or other casualty, and Section 227 of the Real Property Law of the State of New York providing for such a contingency in the absence of such express agreement, and any other law of like import now or hereafter enacted, shall have no application in such case.

#### INSURANCE

26. (A) Tenant shall not do anything, or suffer or permit anything to be done, in or about the Demised Premises which shall (i) invalidate or be in conflict with the provisions of any fire or other insurance policies covering the Building or any property located therein, or (ii) result in a refusal by fire insurance companies of good standing to insure the Building or any such property in amounts reasonably satisfactory to Landlord, or (iii) subject Landlord to any liability or responsibility for injury to any person or property by reason of any activity being conducted in the Demised Premises or (iv) cause any increase in the fire insurance rates applicable to the Building or equipment or other property located therein at the beginning of the Term or at any time thereafter. Tenant, at Tenant's expense, shall comply with all rules, orders, regulations or requirements of the New York Board of Fire Underwriters and the ISO Insurance Rating Organization, Inc. or any similar body.

(B) If, by reason of any act or omission on the part of Tenant, the rate of fire insurance with extended coverage on the Building or equipment or other property of Landlord or any other tenant or occupant of the Building shall be higher than it otherwise would be, Tenant shall reimburse Landlord and all such other tenants or occupants, on demand, for the part of the premiums for fire insurance and extended coverage paid by Landlord and such other tenants or occupants because of such act or omission on the part of Tenant.

(C) In the event that any dispute should arise between Landlord and Tenant concerning insurance rates, a schedule or make up of insurance rates for the Building or the Demised Premises, as the case may be, issued by the ISO Insurance Rating Organization, Inc. or other similar body making rates for fire insurance and extended coverage for the Demised Premises concerned, shall be conclusive evidence of the facts therein stated and of the several items and charges in the fire insurance rates with extended coverage then applicable to such Premises.

(D) Tenant shall, at its own cost and expense, obtain and maintain in full force and effect during the Term of this lease:

(i) Commercial General Liability insurance on an occurrence basis against claims for Bodily Injury, including death arising therefrom, Personal Injury, Property Damage occurring in or about the Demised Premises or the Real Property under which Tenant is named as the insured and Landlord, Landlord's managing agent, any ground lessors, any mortgagees and any other parties whose names shall have been furnished by Landlord to Tenant from time to time are included as additional insureds, by policy endorsement if necessary. Tenant's Commercial General Liability shall be primary, in all respects, without contribution from any other insurance carried by or for the benefit of Landlord, Landlord's managing agent or any Lessors or Mortgagees named as additional insureds. Such Commercial General Liability insurance shall include Contractual Liability to insure Tenant's indemnification obligations set forth in this lease. The minimum limits of liability shall be a combined single limit with respect to each occurrence in an amount of not less than \$5,000,000.00; said limit may be obtained by use of follow-form excess or Umbrella liability policies; provided, however, that Landlord may require Tenant to increase such insurance, from time to time, so as to equal the amount of insurance which in Landlord's reasonable judgment is then being customarily required by landlords for similar office space in the vicinity of the Demised Premises. If Tenant's Commercial General Liability insurance covers more than one location the policy providing this coverage shall be written with a "per location" aggregate limit.

(ii) Property Insurance insuring Tenant's property and all additions, alterations, improvements or betterments to the Demised Premises for the full replacement cost thereof. Property Insurance shall be written to provide Special Form "all risk" perils insuring Tenant's property. Property insurance shall be written with a deductible of no greater than \$10,000 each loss. Tenant shall insure Business Income/Extra Expense in an amount sufficient to provide for at least twelve (12) months of loss of income and estimated extra expenses.

(iii) Worker's Compensation insurance covering all of Tenant's employees and any other insurance required by law.

(iv) If Tenant undertakes an Alteration, then any and all contractors and subcontractors engaged by Tenant shall be required to provide certificates of insurance giving evidence of (a) Commercial General Liability, in an insurer reasonably acceptable to Landlord with limits of no less than those required of the Tenant, and that Landlord, Landlord's managing agent, any ground lessors, any mortgagees and any other parties whose names shall have been furnished by Landlord to Tenant from time to time are included as additional insureds, by policy endorsement if necessary, and (b) Worker's Compensation insurance covering all employees of such contractor or subcontractor. No contractor or subcontractor of Tenant is permitted to begin work on or at the Demised Premises until an insurance certificate, indicating inclusion of required additional insureds, shall have been delivered to and accepted by Landlord.

(E) All insurance to be carried by Tenant (i) shall be obtained from companies licensed as Admitted insurers in the state where the Demised Premises is located and rated "A-, IX", or better, in the current edition of Best's Key Rating Guide, and (ii) may be maintained under blanket policies of insurance provided the coverage afforded will not be reduced from that required hereunder by the use of a blanket policy. Tenant shall provide evidence of required insurance to Landlord in the form of Certificate(s) of Insurance. Tenant is responsible to provide to Landlord evidence of renewals of required insurance ten (10) days prior to expiration of each such policy. Tenant shall endeavor, at no additional cost to Tenant, to cause the carrier of each insurance policy required to be maintained by Tenant pursuant to this lease to agree (by endorsement, if necessary) to provide not less than ten (10) days' advance written notice to Landlord of cancellation of the subject insurance policy. Whether or not Tenant is successful in causing its carrier to so agree, Tenant shall provide Landlord with immediate written notice of the cancellation of any insurance policy required to be maintained by Tenant pursuant to this lease.

(F) Landlord and Tenant hereby mutually waive any rights of recovery or subrogation against each other (including their employees, officers, directors, agents or representatives) for loss or damage to the Building, tenant improvements and betterments, fixtures, equipment and any other personal property to the extent covered by the property insurance required above. If the property insurance purchased by Tenant as required above does not expressly allow the insured to waive rights of subrogation prior to a loss, Tenant shall cause the property policy to be endorsed with a waiver of subrogation as required above.

(G) All insurance coverage shall be provided in compliance with the requirements herein and shall contain no non-standard, special, and/or unusual exclusions or restrictive endorsements without the prior written consent of Landlord.

#### EMINENT DOMAIN

27. (A) In the event that the whole of the Demised Premises shall be lawfully condemned or taken in any manner for any public or quasi-public use, this lease and the Term and estate hereby granted shall forthwith cease and terminate as of the date of vesting of title. In the event that only a part of the Demised Premises shall be so condemned or taken, then effective as of the date of vesting of title, the Rent and additional rent hereunder shall be abated in an amount thereof apportioned according to the area of the Demised Premises so condemned or taken. In the event that only a part of the Building shall be so condemned or taken, then (i) Landlord (whether or not the Demised Premises be affected) may, at its option, terminate this lease and the Term and estate hereby granted as of the date of such vesting of title by notifying Tenant in writing of such termination within sixty (60) days following the date on which Landlord shall have received notice of vesting of title, and (ii) if such condemnation or taking shall be of a substantial part of the Demised Premises, more than thirty (30%) percent of the current available parking at the Building (where Landlord is unable or unwilling to provide reasonable alternative means of substitute parking) or all reasonable access to the Demised Premises or a substantial part of the means of access thereto, then Tenant shall have the right, by delivery of notice in writing to Landlord within sixty (60) days following the date on which Tenant shall have received notice of vesting of title, to terminate this lease and the Term and estate hereby granted as of the date of vesting of title, or (iii) if neither Landlord nor Tenant elects to terminate this lease, as aforesaid, this lease shall be and remain unaffected by such condemnation or taking, except that the Rent and additional rent shall be abated to the extent, if any, hereinabove provided in this Article 27. In the event that only a part of the Demised Premises shall be so condemned or taken and this lease and the Term and estate hereby granted are not terminated as hereinbefore provided, Landlord will, at its expense, restore the remaining portion of the Demised Premises as nearly as practicable to the same condition as it was in prior to such condemnation or taking.

(B) In the event of a termination in any of the cases hereinabove provided, this lease and the Term and estate granted shall expire as of the date of such termination with the same effect as if that were the date hereinbefore set for the expiration of the Term of this lease, and the Rent hereunder shall be apportioned as of such date.



(C) In the event of any condemnation or taking hereinabove mentioned of all or part of the Building, Landlord shall be entitled to receive the entire award in the condemnation proceeding, including any award made for the value of the estate vested by this lease in Tenant, and Tenant hereby expressly assigns to Landlord any and all right, title and interest of Tenant now or hereafter arising in or to any such award or any part thereof, and Tenant shall be entitled to receive no part of such award, except that the Tenant may file a claim for any taking of nonmovable fixtures owned by Tenant and for moving expenses incurred by Tenant. It is expressly understood and agreed that the provisions of this Article 27 shall not be applicable to any condemnation or taking for governmental occupancy for a limited period.

#### NONLIABILITY OF LANDLORD

28. (A) If Landlord or a successor in interest is an individual (which term as used herein includes aggregates of individuals, such as joint ventures, general or limited partnerships or associations), such individual shall be under no personal liability with respect to any of the provisions of this lease. In no event shall Tenant attempt to secure any personal judgment against any such individual or any partner, employee or agent of Landlord by reason of such default by Landlord.

(B) If Landlord is in breach or default with respect to its obligations under this lease, Tenant shall look solely to the equity of such individual in the land and Building of which the Demised Premises form a part for the satisfaction of Tenant's remedies. The word "Landlord" as used herein means only the owner of the landlord's interest for the time being in the land and Building (or the owners of a lease of the Building or of the land and Building) of which the Demised Premises form a part, and in the event of any sale of the Building and land of which the Demised Premises form a part, Landlord shall be and hereby is entirely freed and relieved of all covenants and obligations of Landlord hereunder and, it shall be deemed and construed without further agreement between the parties or between the parties and the purchaser of the Demised Premises, that such purchaser has assumed and agreed to carry out any and all covenants and obligations of Landlord hereunder.

#### DEFAULT

29. (A) Upon the occurrence, at any time prior to or during the Demised Term, of any one or more of the following events (referred to as "Events of Default"):

(i) If Tenant shall default in the payment when due of any installment of Rent or in the payment when due of any additional rent, and such default shall continue for a period of five (5) days after notice by Landlord to Tenant of such default; or

(ii) If Tenant shall default in the observance or performance of any term, covenant or condition of this lease on Tenant's part to be observed or performed (other than the covenants for the payment of Rent and additional rent) and Tenant shall fail to remedy such default within thirty (30) days after notice by Landlord to Tenant of such default, or if such default is of such a nature that it cannot be completely remedied within said period of thirty (30) days and Tenant shall not commence within said period of thirty (30) days, or shall not thereafter diligently prosecute to completion, all steps necessary to remedy such default; or

(iii) If Tenant shall file a voluntary petition in bankruptcy or insolvency, or shall be adjudicated a bankrupt or become insolvent, or shall file any petition or answer seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under the present or any future federal bankruptcy code or any other present or future applicable federal, state or other statute or law, or shall make an assignment for the benefit of creditors or shall seek or consent to or acquiesce in the appointment of any trustee, receiver or liquidator of Tenant or of all or any part of Tenant's property; or

(iv) If, within sixty (60) days after the commencement of any proceeding against Tenant, whether by the filing of a petition or otherwise, seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under the present or any future federal bankruptcy code or any other present or future applicable federal, state or other statute or law, such proceedings shall not have been dismissed, or if, within sixty (60) days after the appointment or any trustee, receiver or liquidator of Tenant, or of all or any part of Tenant's property, such appointment shall not have been vacated or otherwise discharged, or if any execution or attachment shall be issued against Tenant or any of Tenant's property pursuant to which the Demised Premises shall be taken or occupied or attempted to be taken or occupied; or

(v) If Tenant shall default in the observance or performance of any term, covenant or condition on Tenant's part to be observed or performed under any other lease with Landlord of space in the Building and such default shall continue beyond any grace period set forth in such other lease for the remedying of such default; or

(vi) [Intentionally Omitted]; or

(vii) If Tenant's interest in this lease shall devolve upon or pass to any person, whether by operation of law or otherwise, except as expressly permitted under Article 20;

then, upon the occurrence, at any time prior to or during the Demised Term, of any one or more of such Events of Default, Landlord, at any time thereafter, at Landlord's option, may give to Tenant a five (5) days' notice of termination of this lease and, in the event such notice is given, this lease and the Term shall come to an end and expire (whether or not said term shall have commenced) upon the expiration of said five (5) days with the same effect as if the date of expiration of said five (5) days were the Expiration Date, but Tenant shall remain liable for damages as provided in Article 31.

(B) If, at any time (i) Tenant shall be comprised of two (2) or more persons, or (ii) Tenant's obligations under this lease shall have been guaranteed by any person other than Tenant, or (iii) Tenant's interest in this lease shall have been assigned, the word "Tenant", as used in subsection (iii) and (iv) of Section 29(A), shall be deemed to mean any one or more of the persons primarily or secondarily liable for Tenant's obligations under this lease. Any monies received by Landlord from or on behalf of Tenant during the pendency of any proceeding of the types referred to in said subsections (iii) and (iv) shall be deemed paid as compensation for the use and occupation of the Demised Premises and the acceptance of such compensation by Landlord shall not be deemed an acceptance of Rent or a waiver on the part of Landlord of any rights under Section 29(A).

#### TERMINATION ON DEFAULT

30. (A) If Tenant shall default in the payment when due of any installment of Rent or in the payment when due of any additional rent and such default shall continue for a period of five (5) days after notice by Landlord to Tenant of such default, or if this lease and the Demised Term shall expire and come to an end as provided in Article 29:

(i) Landlord and its agents and servants may immediately, or at any time after such default or after the date upon which this lease and the Demised Term shall expire and come to an end, re-enter the Demised Premises or any part thereof, without notice, either by summary proceedings or by any other applicable action or proceeding, or by force or other means provided such force or other means are lawful (without being liable to indictment, prosecution or damages therefor), and may repossess the Demised Premises and dispossess Tenant and any other persons from the Demised Premises and remove any and all of their property and effects from the Demised Premises; and

(ii) Landlord, at Landlord's option, may relet the whole or any part or parts of the Demised Premises from time to time, either in the name of Landlord or otherwise, to such tenant or tenants, for such term or terms ending before, on or after the Expiration Date, at such rental or rentals and upon such other conditions, which may include concessions and free rent periods, as Landlord, in its sole discretion, may determine. Landlord shall have no obligation to relet the Demised Premises or any part thereof and shall in no event be liable for refusal or failure to relet the Demised Premises or any part thereof, or, in the event of any such reletting, for refusal or failure to collect any rent due upon any such reletting, and no such refusal or failure shall operate to relieve Tenant of any liability under this lease or otherwise to affect any such liability; Landlord, at Landlord's option, may make such repairs, replacements, alterations, additions, improvements, decorations and other physical changes in and to the Demised Premises as Landlord, in its sole discretion, considers advisable or necessary in connection with any such reletting or proposed reletting, without relieving Tenant of any liability under this lease or otherwise affecting any such liability.

(B) Tenant, on its own behalf and on behalf of all persons claiming through or under Tenant, including all creditors, does hereby waive any and all rights which Tenant and all such persons might otherwise have under any present or future law to redeem the Demised Premises, or to re-enter or repossess the Demised Premises, or to restore the operation of this lease, after (i) Tenant shall have been dispossessed by a judgment or by warrant of any court or judge, or (ii) any re-entry by Landlord, or (iii) any expiration or termination of this lease and the Demised Term, whether such dispossess, re-entry, expiration or termination shall be by operation of law or pursuant to the provisions of this lease. In the event of a breach or threatened breach by Tenant or any persons claiming through or under Tenant, of any term, covenant or condition of this lease on Tenant's part to be observed or performed, Landlord shall have the right to seek to enjoin such breach and the right to seek to invoke any other remedy allowed by law or in equity as if re-entry, summary proceeding and other special remedies were not provided in this lease for such breach. The rights to invoke the remedies hereinbefore set forth are cumulative and shall not preclude Landlord from invoking any other remedy allowed at law or in equity.

#### DAMAGES

31. (A) If this lease and the Demised Term shall expire and come to an end as provided in Article 29 or by or under any summary proceeding or any other action or proceeding, or if Landlord shall re-enter the Demised Premises as provided in Article 30 or by or under any summary proceedings or any other action or proceeding, then, in any of said events:

(i) Tenant shall pay to Landlord all Rent, additional rent and other charges payable under this lease by Tenant to Landlord to the date upon which this lease and the Demised Term shall have expired and come to an end or to the date of re-entry upon the Demised Premises by Landlord, as the case may be; and

(ii) Tenant shall also be liable for and shall pay to Landlord, as damages, any deficiency (referred to as "Deficiency") between the Rent and additional rent reserved in this lease for the period which otherwise would have constituted the unexpired portion of the Demised Term and the net amount, if any, of rents collected under any reletting effected pursuant to the provisions of Section 30(A) for any part of such period (first deducting from the rents collected under any such reletting all of Landlord's expenses in connection with the termination of this lease or Landlord's re-entry upon the Demised Premises and with such reletting including, but not limited to, all repossession costs, brokerage commissions, legal expenses, reasonable attorneys' fees, alteration costs and other expenses of preparing the Demised Premises for such reletting). Any such Deficiency shall be paid in monthly installments by Tenant on the days specified in this lease for payment of installments of Rent. Landlord shall be entitled to recover from Tenant each monthly Deficiency as the same shall arise, and no suit to collect the amount of the Deficiency for any month shall prejudice Landlord's rights to collect the Deficiency for any subsequent month by a similar proceeding; and

(iii) At any time after the Demised Term shall have expired and come to an end or Landlord shall have re-entered upon the Demised Premises, as the case may be, whether or not Landlord shall have collected any monthly Deficiencies as aforesaid, Landlord shall be entitled to recover from Tenant, and Tenant shall pay to Landlord, on demand, as and for liquidated and agreed final damages, a sum equal to the amount by which the Rent and additional rent reserved in this lease for the period which otherwise would have constituted the unexpired portion of the Demised Term exceeds the then fair and reasonable rental value of the Demised Premises for the same period, both discounted to present worth at the rate of four (4%) per cent per annum. If, before presentation of proof of such liquidated damages to any court, commission, or tribunal, the Demised Premises, or any part thereof, shall have been relet by Landlord for the period which otherwise would have constituted the unexpired portion of the Demised Term, or any part thereof, the amount of Rent reserved upon such reletting shall be deemed, prima facie, to be the fair and reasonable rental value for the part or the whole of the Demised Premises so relet during the term of the reletting.

(B) If the Demised Premises, or any part thereof, shall be relet together with other space in the Building, the rents collected or reserved under any such reletting and the expenses of any such reletting shall be equitably apportioned for the purposes of this Article 31. Tenant shall in no event be entitled to any rents collected or payable under any reletting, whether or not such rents shall exceed the rent reserved in this lease. Solely for the purposes of this Article, the term "Rent" as used in Section 31(A) shall mean the rent in effect immediately prior to the date upon which this lease and the Demised Term shall have expired and come to an end, or the date of re-entry upon the Demised Premises by Landlord, as the case may be, plus any additional rent payable pursuant to the provisions of Article 11 for the Escalation Year (as defined in Article 11) immediately preceding such event. Nothing contained in Articles 29 and 30 of this lease shall be deemed to limit or preclude the recovery by Landlord from Tenant of the maximum amount allowed to be obtained as damages by any statute or rule of law, or of any sums or damages to which Landlord may be entitled in addition to the damages set forth in Section 31(A).

## SUMS DUE LANDLORD

32. If there is an Event of Default under this lease, Landlord may immediately, or at any time thereafter, without notice, and without thereby waiving such default, perform the same for the account of Tenant and at the expense of Tenant. If Landlord at any time is compelled to pay or elects to pay any sum of money, or do any act which will require the payment of any sum of money by reason of the failure of Tenant to comply with any provision hereof, or, if Landlord is compelled to or elects to incur any expense, including reasonable attorneys' fees, instituting, prosecuting and/or defending any action or proceeding instituted by reason of any default of Tenant hereunder, the sum or sums so paid by Landlord, with all interest, costs and damages, shall be deemed to be additional rent hereunder and shall be due from Tenant to Landlord on the first day of the month following the incurring of such respective expenses or, at Landlord's option, on the first day of any subsequent month. Any sum of money (other than rent) accruing from Tenant to Landlord pursuant to any provisions of this lease, including, but not limited to, the provisions of Schedule "B" and extra work orders requested by Tenant, whether prior to or after the Rent Commencement Date, may, at Landlord's option, be deemed additional rent, and Landlord shall have the same remedies for Tenant's failure to pay any item of additional rent when due as for Tenant's failure to pay any installment of Rent when due. Tenant's obligations under this Article shall survive the expiration or sooner termination of the Demised Term. In any case in which the Rent or additional rent is not paid within five (5) days of the day when same is due, Tenant shall pay a late charge equal to five (5) cents for each dollar so due for the purpose of defraying expenses incident to the handling of such delinquent account; provided, however, that if the subject payment delinquency is the first payment delinquency on the part of Tenant under this lease during the preceding twelve (12) months, then such late charge shall not be imposed in connection therewith so long as Tenant actually makes the subject payment in full within thirty (30) days following the original due date therefor and is not then otherwise in default under this lease. This late payment charge is intended to compensate Landlord for its additional administrative costs resulting from Tenant's failure to pay in a timely manner and has been agreed upon by Landlord and Tenant as a reasonable estimate of the additional administrative costs that will be incurred by Landlord as a result of Tenant's failure as the actual cost in each instance is extremely difficult, if not impossible, to determine. This late payment charge will constitute liquidated damages and will be paid to Landlord together with such unpaid amounts. Additionally, with respect to all amounts owed Landlord hereunder not paid within thirty (30) days of the date when due, Tenant shall pay interest on such amount from the due date of such amount until the payment date of such amount at a rate equal to the greater of ten (10%) percent per annum or three hundred basis points over the then current prime rate of interest, as reported by The Wall Street Journal, provided, however, the rate charged shall in no event be higher than the highest rate permitted by law. Neither the payment of the late payment charge nor the payment of interest will constitute a waiver by Landlord of any default by Tenant under this lease. Tenant hereby agrees that all Rent and additional rent from time to time computed by Landlord in connection with this lease shall be final and binding for all purposes of this lease unless, within thirty (30) days after Landlord provides Tenant with written notice (if any) of the amount thereof, Tenant provides Landlord with written notice disputing the mathematical accuracy of such amount. Moreover, even in the event of a timely written notice of dispute by Tenant, Tenant shall pay the full amount demanded by Landlord, pending adjustment, if appropriate, following final resolution of such dispute. Tenant shall reimburse Landlord for any and all reasonable attorney fees incurred by Landlord in connection with the preparation, review, negotiation and/or consummation of any amendment, modification, agreement or other understanding made at the request of, or as an accommodation to, Tenant with respect to this lease.

NO WAIVER

33. No act or thing done by Landlord or Landlord's agents during the term hereby demised shall be deemed an acceptance of a surrender of said Demised Premises, and no agreement to accept such surrender shall be valid unless in writing signed by Landlord. No employee of Landlord or of Landlord's agents shall have any power to accept the keys of the Demised Premises prior to the termination of this lease. The delivery of keys to any employee of Landlord or of Landlord's agents shall not operate as a termination of this lease or a surrender of the Demised Premises. In the event Tenant shall at any time desire to have Landlord underlet the Demised Premises for Tenant's account, Landlord or Landlord's agents are authorized to receive said keys for such purposes without releasing Tenant from any of the obligations under this lease, and Tenant hereby relieves Landlord and its agents of any liability for loss of or damage to any of Tenant's effects in connection with such underletting. Notwithstanding anything contained to the contrary in this lease, Tenant hereby waives any right to recover against Landlord and its agents any indirect, consequential, special, punitive or incidental damages against Landlord or its agents in any cause of action, proceeding or claim arising out of, or in connection with, this lease. The failure of Landlord to seek redress for violation of, or to insist upon the strict performance of, any covenants or conditions of this lease, or any of the Rules and Regulations annexed hereto and made a part hereof or hereafter adopted by Landlord, shall not prevent a subsequent act, which would have originally constituted a violation, from having all the force and effect of an original violation. The receipt by Landlord of rent with knowledge of the breach of any covenant of this lease shall not be deemed a waiver of such breach. The failure of Landlord to enforce any of the Rules and Regulations annexed hereto and made a part hereof, or hereafter adopted, against Tenant and/or any other tenant in the Building shall not be deemed a waiver of any such Rules and Regulations. No provision of this lease shall be deemed to have been waived by Landlord, unless such waiver be in writing signed by Landlord. No payment by Tenant or receipt by Landlord of a lesser amount than the monthly Rent herein stipulated shall be deemed to be other than on account of the earliest stipulated Rent nor shall any endorsement or statement on any check or any letter accompanying any check or payment of Rent be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such Rent or pursue any other remedy in this lease provided.

## WAIVER OF TRIAL BY JURY

34. To the extent such waiver is permitted by law, Landlord and Tenant hereby waive trial by jury in any action, proceeding or counterclaim brought by Landlord or Tenant against the other on any matter whatsoever arising out of or in any way connected with this lease, the relationship of landlord and tenant, the use or occupancy of the Demised Premises by Tenant or any person claiming through or under Tenant, any claim of injury or damage, and any emergency or other statutory remedy. The provisions of the foregoing sentence shall survive the expiration or any sooner termination of the Demised Term. If Landlord commences any summary proceeding for nonpayment, Tenant agrees not to interpose any counterclaim of whatever nature or description in any such proceeding or to consolidate such proceeding with any other proceeding.

Tenant hereby expressly waives any and all rights of redemption granted by or under any present or future laws in the event of Tenant being evicted or dispossessed for any cause, or in the event of Landlord's obtaining possession of the Demised Premises, by reason of the violation by Tenant of any of the covenants and conditions of this lease or otherwise.

## NOTICES

35. (A) Except as otherwise expressly provided in this lease, any bills, statements, notices, demands, requests or other communications (other than bills, statements or notices given in the regular course of business) given or required to be given under this lease shall be effective only if rendered or given in writing, sent by nationally recognized overnight courier or registered or certified mail (return receipt requested), addressed (A) to Tenant, to the attention of Tenant's Chief Financial Officer, (i) at Tenant's address set forth in this lease if mailed prior to Tenant's taking possession of the Demised Premises, or (ii) at the Building if mailed subsequent to Tenant's taking possession of the Demised Premises, or (iii) at any place where Tenant or any agent or employee of Tenant may be found if mailed subsequent to Tenant's vacating, deserting, abandoning or surrendering the Demised Premises, or (B) to Landlord c/o RXR Realty LLC, to the attention of "Managing Director", at Landlord's address set forth in this lease with a copy to Landlord c/o RXR Realty LLC, to the attention of the "Executive Vice President and Legal Counsel", at Landlord's address set forth in this lease, or (C) addressed to such other address as either Landlord or Tenant may designate as its new address for such purpose by notice given to the other in accordance with the provisions of this Article. Any such bills, statements, notices, demands, requests or other communications shall be deemed to have been rendered or given on the date when it shall have been delivered or rejected.

(B) Tenant hereby designates the Demised Premises as its billing address for the delivery of all bills and invoices issued by Landlord in connection with this lease. Upon thirty (30) days' prior written notice to Landlord, Tenant may, from time to time, re-designate its billing address hereunder.



#### INABILITY TO PERFORM

36. If, by reason of strikes or other labor disputes, fire or other casualty (or reasonable delays in adjustment of insurance), accidents, orders or regulations of any Federal, State, County or Municipal authority, or any other cause beyond Landlord's reasonable control, whether or not such other cause shall be similar in nature to those hereinbefore enumerated, Landlord is unable to furnish or is delayed in furnishing any utility or service required to be furnished by Landlord under the provisions of this lease or any collateral instrument or is unable to perform or make or is delayed in performing or making any installations, decorations, repairs, alterations, additions or improvements, whether or not required to be performed or made under this lease, or under any collateral instrument, or is unable to fulfill or is delayed in fulfilling any of Landlord's other obligations under this lease, or any collateral instrument, no such inability or delay shall constitute an actual or constructive eviction, in whole or in part, or entitle Tenant to any abatement or diminution of rent, or relieve Tenant from any of its obligations under this lease, or impose any liability upon Landlord or its agents, by reason of inconvenience or annoyance to Tenant, or injury to or interruption of Tenant's business, or otherwise.

#### INTERRUPTION OF SERVICE

37. (A) Landlord reserves the right to stop the services of the air conditioning, elevator, escalator, plumbing, electrical or other mechanical systems or facilities in the Building when necessary by reason of accident or emergency, or for repairs, alterations or replacements, which, in the reasonable judgment of Landlord are desirable or necessary, until such repairs, alterations or replacements shall have been completed. If the Tenant is in default in the payment of the rent or additional rent, or in the performance of any other provisions of this lease, and such default continues for ten (10) days after notice by Landlord to Tenant, then Landlord reserves the right to discontinue any or all of the services to the Demised Premises during the continuance of such default. The exercise of such rights by Landlord shall not constitute an actual or constructive eviction, in whole or in part, or entitle Tenant to any abatement or diminution of rent, or relieve Tenant from any of its obligations under this lease, or impose any liability upon Landlord or its agents by reason of inconvenience or annoyance to Tenant, or injury to or interruption of Tenant's business or otherwise.

(B) Notwithstanding anything to the contrary contained in this lease, in the event of an Abatement Event (hereinafter defined), Tenant, as its sole and exclusive remedy, will be entitled to an abatement of Rent and additional rent, subject to the following provisions and conditions of this Article 37(B). An "Abatement Event" shall be deemed to have occurred where the parties have agreed or an independent arbitrator has determined (in accordance with the procedures set forth below) that, due to a failure of any essential service to the Demised Premises that results from the negligence or willful misconduct of Landlord, the Demised Premises has been rendered Untenantable (hereinafter defined), and such Untenantability has continued for a period of ten (10) consecutive business days after receipt of notice of such Untenantability. If the parties agree or the arbitrator determines that there has occurred an Abatement Event, then Rent (including all fixed and additional rent) shall be abated on a day for day basis, commencing on the eleventh (11th) business day after Landlord's receipt of notice of such Untenantability and continuing until the date on which Landlord notifies Tenant that the Demised Premises has ceased to be Untenantable. If only a substantial portion of the Demised Premises (i.e., at least ten (10%) percent of the total rentable area thereof or at least twenty-five (25%) percent of the total rentable area of the Plaza Level Bank Branch Premises), but less than the entirety of the Demised Premises is rendered Untenantable as a result of an Abatement Event, then Tenant shall still be entitled to an abatement, but such abatement would be on a prorated basis, using the percentage derived from a fraction having a numerator equal to the rentable area of the Untenantable portion of the Demised Premises and a denominator equal to the total rentable area of the Demised Premises; provided, however, that (x) if more than forty (40%) percent of the total rentable area of the Demised Premises is rendered Untenantable as a result of an Abatement Event and, as a direct result thereof, Tenant ceases to use the entirety of the Demised Premises, then such abatement would not be prorated (rather, such abatement would apply to the entire Demised Premises) and (y) if more than forty (40%) percent of the total rentable area of the Plaza Level Bank Branch Premises is rendered Untenantable as a result of an Abatement Event and, as a direct result thereof, Tenant ceases to use the entirety of the Plaza Level Bank Branch Premises, then such abatement, as it relates to the Plaza Level Bank Branch only, would not be prorated (rather, such abatement would apply to the entire Plaza Level Bank Branch Premises). The term "Untenantable", as used herein, shall be deemed to mean where both: (i) the Demised Premises has been placed in a condition where a reasonable tenant could not reasonably be expected to continue to use and occupy the Demised Premises, and (ii) Tenant has actually and completely vacated and ceased to use the Demised Premises. In the event that Landlord disputes a claim by Tenant that there has occurred an Abatement Event, Tenant may institute an arbitration proceeding for the purpose of validating and affirming its claim. The arbitration shall be commenced and held at the American Arbitration Association ("AAA") office located nearest the Building and shall be conducted before a single, independent arbitrator pursuant to the then prevailing expedited arbitration rules of the AAA. The arbitrator must be an individual with at least ten (10) years' experience in the Nassau/Suffolk commercial real estate market. The sole issue before the arbitrator shall be whether there has occurred an Abatement Event under the provisions of this Article 37 (B). The decision of the arbitrator shall be final and binding upon Landlord and Tenant. Except for the determination of Tenant's entitlement to an abatement (if appropriate), the arbitrator shall not be empowered to award damages of any nature. The provisions of this Article 37(B) shall be inapplicable to any Untenantability which (a) is attributable to the actions or omissions of Tenant or its employees, agents or contractors, or (b) results from any fire or other casualty falling within the purview of Article 25 of this lease.

CONDITIONS OF LANDLORD'S LIABILITY

38. In addition to the requirements for constructive eviction imposed by law, Tenant shall not be entitled to claim a constructive eviction from the Demised Premises unless Tenant shall have first notified Landlord of the condition or conditions giving rise thereto, and if the complaints be justified, unless Landlord shall have failed to remedy such conditions within a reasonable time after receipt of such notice.

39. [Intentionally Omitted]

40. [Intentionally Omitted]

ENTIRE AGREEMENT

41. This lease (including the Schedules and Exhibits annexed hereto) contains the entire agreement between the parties and all prior negotiations and agreements are merged herein. Tenant hereby acknowledges that neither Landlord nor Landlord's agent or representative has made any representations or statements, or promises, upon which Tenant has relied, regarding any matter or thing relating to the Building, the land allocated to it (including the parking area) or the Demised Premises, or any other matter whatsoever, except as is expressly set forth in this lease, including, but without limiting the generality of the foregoing, any statement, representation or promise as to the fitness of the Demised Premises for any particular use, the services to be rendered to the Demised Premises, or the prospective amount of any item of additional rent. No oral or written statement, representation or promise whatsoever with respect to the foregoing or any other matter made by Landlord, its agents or any broker, whether contained in an affidavit, information circular, or otherwise, shall be binding upon the Landlord unless expressly set forth in this lease. No rights, easements or licenses are or shall be acquired by Tenant by implication or otherwise unless expressly set forth in this lease. This lease may not be changed, modified or discharged, in whole or in part, orally, and no executory agreement shall be effective to change, modify or discharge, in whole or in part, this lease or any obligations under this lease, unless such agreement is set forth in a written instrument executed by the party against whom enforcement of the change, modification or discharge is sought. All references in this lease to the consent or approval of Landlord shall be deemed to mean the written consent of Landlord, or the written approval of Landlord, as the case may be, and no consent or approval of Landlord shall be effective for any purpose unless such consent or approval is set forth in a written instrument executed by Landlord. Landlord and Tenant understand, agree and acknowledge that this lease has been freely negotiated by both parties and that, in the event of any controversy, dispute, or contest over the meaning, interpretation, validity, or enforceability of this lease or any of its terms and conditions, there shall be no inference, presumption or conclusion drawn whatsoever against either party by virtue of that party having drafted this lease or any portion hereof.

Tenant shall not record this lease (nor a memorandum thereof). In the event that Tenant violates this prohibition against recording, Landlord, at its option, may terminate this lease or may declare Tenant in default under this lease and pursue any or all of Landlord's remedies provided in this lease

#### DEFINITIONS

42. The words "re-enter", "re-entry", and "re-entered" as used in this lease are not restricted to their technical legal meanings. The term "business days" as used in this lease shall exclude Saturdays (except such portion thereof as is covered by specific hours in Article 6 hereof), Sundays and all days observed by the State or Federal Government as legal holidays. The terms "person" and "persons" as used in this lease shall be deemed to include natural persons, firms, corporations, partnerships, associations and any other private or public entities, whether any of the foregoing are acting on their behalf or in a representative capacity. The various terms which are defined in other Articles of this lease or are defined in Schedules or Exhibits annexed hereto, shall have the meanings specified in such other Articles, Exhibits and Schedules for all purposes of this lease and all agreements supplemental thereto, unless the context clearly indicates the contrary.

#### PARTNERSHIP TENANT

43. If Tenant is a partnership (or is comprised of two (2) or more persons, individually or as co-partners of a partnership) or if Tenant's interest in this lease shall be assigned to a partnership (or to two (2) or more persons, individually or as co-partners of a partnership) pursuant to Article 20 (any such partnership and such persons are referred to in this Section as "Partnership Tenant"), the following provisions of this Section shall apply to such Partnership Tenant: (a) the liability of each of the parties comprising Partnership Tenant shall be joint and several, and (b) each of the parties comprising Partnership Tenant hereby consents in advance to, and agrees to be bound by, any modifications of this lease which may hereafter be made, and by any notices, demands, requests or other communications which may hereafter be given, by Partnership Tenant or by any of the parties comprising Partnership Tenant, and (c) any bills, statements, notices, demands, requests and other communications given or rendered to Partnership Tenant or to any of the parties comprising Partnership Tenant shall be deemed given or rendered to Partnership Tenant and to all such parties and shall be binding upon Partnership Tenant and all such parties, and (d) if Partnership Tenant shall admit new partners, all of such new partners shall, by their admission to Partnership Tenant, be deemed to have assumed performance of all of the terms, covenants and conditions of this lease on Tenant's part to be observed and performed, and (e) Partnership Tenant shall give prompt notice to Landlord of the admission of any such new partners, and upon demand of Landlord, shall cause each such new partner to execute and deliver to Landlord an agreement in form satisfactory to Landlord, wherein each such new partner shall assume performance of all of the terms, covenants and conditions of this lease on Tenant's part to be observed and performed (but neither Landlord's failure to request any such agreement nor the failure of any such new partner to execute or deliver any such agreement to Landlord shall vitiate the provisions of subdivision (d) of this Section).

SUCCESSORS, ASSIGNS, ETC.

44. The terms, covenants, conditions and agreements contained in this lease shall bind and inure to the benefit of Landlord and Tenant and their respective heirs, distributees, executors, administrators, successors, and, except as otherwise provided in this lease, their respective assigns.

BROKER

45. Each party represents to the other that this lease was brought about by Newmark Grubb Knight Frank (the "Broker"), as broker, and that all negotiations with respect to this lease were conducted exclusively among Landlord, Tenant and the Broker. Each party will indemnify, and hold harmless the other from and against any loss, claim, damage, expense (including costs of suit and reasonable attorneys' fees) or liability for any compensation, commission or charges claimed by any other realtor, broker, agent or finder claiming to have dealt with such party in connection with this lease. Landlord shall pay the Broker a commission in connection with this lease, subject and pursuant to the terms of a separate agreement between Landlord and Broker. In the event Tenant elects to use any broker (the "New Broker") other than or together with the Broker in connection with any extension of the Term of this lease (whether by way of a renewal option or a separate extension agreement), Tenant shall be responsible for (and indemnify Landlord against) the entire amount, if any, by which the commission claimed by the New Broker exceeds the amount of the commission that would have been payable by Landlord to the Broker on account of the subject transaction had such New Broker not been engaged by Tenant.

CAPTIONS

46. The captions in this lease are included only as a matter of convenience and for reference, and in no way define, limit or describe the scope of this lease nor the intent of any provisions thereof.

NOTICE OF ACCIDENTS

47. Tenant shall give notice to Landlord, promptly after Tenant learns thereof, of (i) any accident in or about the Demised Premises, (ii) all fires and other casualties within the Demised Premises, (iii) all damages to or defects in the Demised Premises, including the fixtures, equipment and appurtenances thereof for the repair of which Landlord might be responsible, and (iv) all damage to or defects in any parts or appurtenances of the Building's sanitary, electrical, heating, ventilating, air-conditioning, elevator and other systems located in or passing through the Demised Premises or any part thereof.

TENANT'S AUTHORITY TO ENTER LEASE

48. In the event that the Tenant hereunder is a corporation, Tenant represents that the officer or officers executing this lease have the requisite authority to do so.

49. [Intentionally Omitted]

50. [Intentionally Omitted]

GOVERNING LAW

51. This lease shall be construed in accordance with and governed by the internal laws (without reference to choice or conflict of laws) of the State of New York. In respect of any dispute between the parties regarding the subject matter hereof, the parties hereby irrevocably consent and submit to in personam jurisdiction in the courts of New York, located in the county in which the Building is located, including the United States courts located in said county, and to all proceedings in such courts. The parties hereby agree that such courts shall be the venue and exclusive and proper forum in which to adjudicate any case or controversy arising either, directly or indirectly, under or in connection with this lease and that they will not contest or challenge the jurisdiction or venue of these courts.

## RENEWAL OPTION

52. Provided Tenant has complied with all the terms, covenants and conditions of this lease and there is not an existing Event of Default under this lease, Tenant shall have the option (this "Renewal Option") to renew this lease for one (1) additional five (5) year period (the "Renewal Term"), with the first such Renewal Term to commence on January 1, 2027 and to end on December 31, 2031; subject to and in accordance with the following terms and conditions:

(A) Tenant shall give notice to Landlord, in writing, no later than January 1, 2026, that this Renewal Option is being exercised. The parties agree to then negotiate the minimum annual rent for the subject Renewal Term (the "Minimum Annual Renewal Rent"). The Minimum Annual Renewal Rent is intended to be the then current fair market annual rental for the Demised Premises as of the first day of the Renewal Term. Fair market annual rental shall not mean "net effective rent to Landlord". In determining fair market annual rental, all relevant market factors shall be taken into account ("Relevant Factors"), including, without limitation, (i) the annual rental rate per rentable square foot; (ii) the definition of rentable square feet for purposes of computing the rate; (iii) location, quality and age of the Building and all of the Building systems; (iv) escalation (including type, re-set base year and stop) and abatement commissions, if any; (v) length of the lease term; (vi) size (i.e. square footage) and improvement allowance, if any; (vii) condition of space; (viii) the extent of services to be provided; (ix) distinctions between "Gross and "Net" leases; (x) base year figures or expense stops for escalation purposes for both operating costs and ad valorem/real estate taxes; (xi) rent concessions; and (xii) work letter contributions. Upon the proper and timely exercise by Tenant of this Renewal Option, the Term of this lease shall be extended for the subject Renewal Term on the then current terms, covenants and conditions of this lease, except that (a) the Minimum Annual Renewal Rent shall be fixed in accordance with the provisions of this Article, (b) unless otherwise mutually agreed by the parties at that time (and reflected in the calculation of the Minimum Annual Renewal Rent), the Demised Premises shall be delivered in its "as is" condition as of the first day of the Renewal Term; (c) unless otherwise mutually agreed by the parties at that time (and reflected in the calculation of the Minimum Annual Renewal Rent), Tenant shall not be entitled to any rent concession, allowance or other leasing incentive in connection with such renewal; and (d) there shall be no further option to renew or extend the Term of this lease.

(B) If Landlord and Tenant have not mutually agreed upon the Minimum Annual Renewal Rent by the first day of the sixth (6th) month prior to the commencement of the Renewal Term, then by the first day of the fifth (5<sup>th</sup>) month prior to the commencement of the Renewal Term, they shall each select one real estate appraiser each of whom shall conduct a real estate appraisal and furnish a report to indicate their opinion of the fair market rental of the Demised Premises. Each such appraiser must be a member of the Appraisal Institute (MAI), a New York State licensed appraiser and have at least ten (10) years of experience appraising multi-tenanted office buildings in Nassau County, New York as a MAI appraiser. As promptly as possible, but in no event later than thirty (30) days after the appointment of both appraisers, the appraisers shall notify Landlord and Tenant in writing of their determination of the Minimum Annual Renewal Rent. If either party (a "Failing Party") shall fail to timely select an appraiser as contemplated in this Article 52(B), then the other party (the "Non-Failing Party") shall have the right to deliver to Landlord a Deemed Appraiser Selection Warning Notice (hereinafter defined). If the Failing Party shall fail to notify the Non-Failing Party of its selection of an appraiser within fifteen (15) business days following proper delivery of a Deemed Appraiser Selection Warning Notice, then the Failing Party shall be deemed to have also selected the same appraiser that was selected by the Non-Failing Party. As used herein, the term "Deemed Appraiser Selection Warning Notice" shall mean a written notice from the Non-Failing Party to the Failing Party that (w) specifically references this Article 52(B); (x) advises Failing Party that it has failed to select an appraiser within the time period allotted therefor under this Article; (y) advises the Failing Party of the fact that, pursuant to the terms of this lease, the Failing Party will be deemed to have selected the same appraiser that was selected by the Non-Failing Party (and specifically identifies the name of the appraiser so selected by the Failing Party) if such failure continues for a period of fifteen (15) business days following the delivery of this Deemed Appraiser Selection Warning Notice; and (z) includes on both the envelope and the first page of the subject notice, in bold uppercase letters (14 point type or greater), the following statement: "**THIS IS A TIME SENSITIVE NOTICE AND [INSERT NAME OF FAILING PARTY] SHALL BE DEEMED TO WAIVE ITS RIGHTS IF IT FAILS TO RESPOND IN THE TIME PERIOD PROVIDED**".

(C) If, after a review of the appraisal reports prepared and submitted in accordance with Article 52(B), above, Landlord and Tenant have not agreed on the Minimum Annual Renewal Rent by the first day of the fourth (4th) month prior to the commencement of the Renewal Term, then the matter shall immediately be submitted to arbitration before a single arbitrator (who must have at least ten (10) years of experience in the Nassau/Suffolk commercial real estate industry) under the then prevailing commercial arbitration rules of the American Arbitration Association ("AAA") at the AAA venue located nearest the Building. The arbitrator shall, in determining the Minimum Annual Renewal Rent, take into consideration the then existing current fair market rental value of similar premises in the vicinity. The arbitrator shall then, on an expedited basis, choose one of the determinations of the two appraisers originally selected by the parties. The parties agree that the decision and determination to be made by the arbitrator with respect to the Minimum Annual Renewal Rent shall be final and binding upon Landlord and Tenant.



(D) Landlord and Tenant shall each separately pay their respective designated appraisers. The expenses, fees and charges in connection with the arbitration process set forth in Article 52(C) above, shall be borne equally between Landlord and Tenant.

(E) Upon agreement as to the Minimum Annual Renewal Rent by the parties hereto or upon the Minimum Annual Renewal Rent being fixed by the arbitrator, as the case may be, the parties hereto shall enter into a supplementary agreement extending the Term of this lease as hereinabove provided. In the event of no agreement between the parties or no decision by arbitration prior to the commencement of the Renewal Term, Tenant shall pay an interim fixed rental at the minimum annual rental rate last in effect until the arbitration shall have been completed, after which Landlord and Tenant shall make appropriate adjustment of such interim rent, such adjustment to be as of the commencement date of the Renewal Term.

(F) The rights and entitlements established for Tenant under this Article 52 are personal to Flushing Bank (and to any assignee of Flushing Bank taking assignment of this lease pursuant to the provisions of Article 20(C) of this lease), and shall not otherwise be transferrable by operation of law or otherwise.

#### RIGHT OF OFFER

53. (A) If, at any time when there then remains at least two (2) full years of unexpired Term on this lease (specifically excluding any Renewal Term for which the corresponding Renewal Option, if any, has not theretofore been exercised by Tenant), any space located immediately adjacent and contiguous to the Demised Premises on the Plaza Level of the Building, becomes vacant and available for lease following the Rent Commencement Date (any such space being hereinafter referred to as "Offer Premises"), Landlord shall endeavor to provide Tenant with written notice ("Landlord's Offer Notice") of the availability or anticipated (within twelve months) availability of any such Offer Premises; provided, however, that validity of this lease shall not be impacted, and Landlord shall not be liable to Tenant for any costs, expenses, damages or liabilities that are or may be incurred by Tenant, by reason of Landlord's unintentional failure to so notify Tenant, unless Tenant had expressed to Landlord, in a signed written notice, during the preceding twelve (12) months, a general non-binding intention and desire to expand its Demised Premises at the Building. In any event, Tenant shall have a right (its "Right of Offer") to lease the entirety of the subject Offer Premises; subject to and in accordance with the term and conditions of this Article 53. Tenant shall exercise its Right of Offer, if at all, in strict accordance with the following terms and conditions:

(B) At the time Tenant intends to exercise its Right of Offer hereunder, and as of the effective date of Tenant's leasing of the subject Offer Premises, Tenant and/or its Related Parties shall be occupying at least seventy-five (75%) percent of the rentable area of the Demised Premises and no Event of Default shall have occurred and be continuing under this lease. In order to exercise its Right of Offer, Tenant must give written notice to Landlord ("Tenant's Offer Exercise Notice"), expressing unequivocally the fact the Tenant has exercised its Right of Offer to lease the subject Offer Premises; it being acknowledged and agreed that any written communication purporting to serve as Tenant's Offer Exercise Notice, but containing language of equivocation, shall be deemed a counteroffer by Tenant and shall constitute the election by Tenant not to exercise its Right of Offer with respect to the subject Offer Premises. In the event of an effective delivery of a valid Tenant's Offer Exercise Notice, Landlord shall lease the subject Offer Premises to Tenant, and Tenant shall hire and let the subject Offer Premises from Landlord, pursuant to the Offer Terms (defined below). If Landlord does deliver a Landlord's Offer Notice, then such Tenant's Offer Exercise Notice must be delivered, if at all, within ten (10) business days following such delivery of Landlord's Offer Notice

(C) The "Offer Terms" shall mean that, effective as of the date (the "Offer Premises Commencement Date") on which Landlord tenders to Tenant vacant, broom clean possession of the subject Offer Premises, this lease will be deemed modified and amended as follows:

(i) The term "Demised Premises" shall be modified and amended to thereafter include the subject Offer Premises together with the balance of the then current Demised Premises under this lease;

(ii) "Tenant's Proportionate Share" under this lease shall be recalculated so as to take into account the increased deemed rentable area of the Demised Premises attributable to the addition of the subject Offer Premises thereto;

(iii) The Term of this lease, as it relates to the subject Offer Space (the "Offer Space Term"), shall thereafter run co-terminously with the Term of this lease, as it relates to the balance of the then-current Demised Premises under this lease;

(iv) Throughout the Offer Space Term, the annual minimum rent payable by Tenant with respect to the subject Offer Space (the "Base OS Rent") shall be equal to the then-current fair market annual rental for the subject Offer Space. In the event Landlord and Tenant have not mutually agreed upon the Base OS Rent within thirty (30) days following delivery of the Tenant's Offer Exercise Notice, the Base OS Rent shall be determined through a set of appraisal and baseball arbitration procedures that are substantially the same, *mutatis mutandis*, as the procedures set forth in Article 52(B) through (D) of this lease for the determination of Minimum Annual Renewal Rent. In no event, however, shall the Base OS Rent be less than the then current annual minimum rent under this lease (each calculated on a per rentable square foot basis);

(v) Tenant shall accept the subject Offer Space in its then "as-is" condition and, unless otherwise mutually agreed by the parties (and factored into the determination of the Base OS Rent), Landlord shall not be obligated to perform any work, make any installations or incur any expense in or with respect to the subject Offer Space in order to prepare same for occupancy by Tenant (but the foregoing shall be factored into the determination of the Base OS Rent for the subject Offer Space); and

(vi) Landlord, at Tenant's expense, will cause the electricity service to the subject Offer Space to be submetered in accordance with the provisions of Schedule "B" to this lease.

(D) If requested by either party, Landlord and Tenant shall enter into an amendment of this lease (the "Offer Agreement"), which shall reflect the modifications necessary to incorporate the Offer Terms. In the event Tenant fails to execute the Offer Agreement within thirty (30) days of presentment thereof by Landlord, Tenant's Right of Offer will be automatically voidable at the election of Landlord and, if so voided, will be deemed to have lapsed and Landlord shall be free to lease the subject Offer Premises to any third party upon any terms.

(E) In the event Tenant does not exercise its Right of Offer with respect to an Offer Premises and that subject space is thereafter leased to, and occupied by, a third party tenant, then that subject space shall again become an Offer Premises for purposes of this Article 53 (and Tenant shall have its Right of Offer with respect thereto) if same again becomes vacant and available for lease at a time when there remains at least two (2) full years of unexpired Term on this lease (specifically excluding any Renewal Term for which the corresponding Renewal Option, if any, has not theretofore been exercised by Tenant).

(F) Time is of the essence with respect to all dates and time periods set forth in this Article 53.

(G) The rights and entitlements established for Tenant under this Article 53 are personal to Flushing Bank (and to any assignee of Flushing Bank taking assignment of this lease pursuant to the provisions of Article 20(C) of this lease), and shall not otherwise be transferrable by operation of law or otherwise.

#### ATM SPACE

54. Subject to the provisions of this Article 54, Tenant shall be permitted to install and use, subject to Tenant's compliance with all applicable legal requirements, in the ATM Space a full-service automated teller machine or similar type automated banking technology which dispenses cash (an "ATM") for customary ATM purposes during the period from January 1, 2015 through and including the expiration or sooner termination of this lease (the "ATM Term"). As used herein, the term "ATM Space" shall mean an area located immediately adjacent and contiguous to the Plaza Level Bank Branch Premises, the precise location and dimensions of which to be hereafter mutually agreed upon by Landlord and Tenant. If, at any time during the Term of this lease, Tenant desires to install and use a second ATM in the Building, then Landlord and Tenant shall use good faith efforts to identify a mutually-acceptable location for a secondary ATM Space somewhere in the common areas of the Plaza Level or Lobby Level of the Building. Throughout the ATM Term, the ATM Space(s) shall be deemed to be a part of the Demised Premises and the terms, covenants and conditions of this lease relating to Tenant's use and enjoyment of the Demised Premises shall apply with full force and effect with respect to the ATM Space(s); provided, however, that (i) Tenant shall not be obligated to pay Rent or any items of additional rent with respect to the ATM Space(s) during the ATM Term (except in connection with Tenant's indemnity and insurance obligations under this lease and except that Tenant, prior to its use thereof and at Tenant's expense, shall cause the electric service to the ATM Space to be connected to an existing submeter that services the Demised Premises [or shall otherwise cause such ATM Space to be submetered] and Tenant shall pay for electricity consumption associated with the operation of the ATM(s) throughout the ATM Term); (ii) the deemed rentable area of the ATM Space(s) shall be specifically excluded from the calculation of the deemed rentable area of the Demised Premises (and, as such, the calculation of Tenant's Proportionate Share shall remain unaffected by the ATM Space[s]); and (iii) Landlord shall have no cleaning, maintenance or repair obligations with respect to the ATM Space(s). Upon expiration of the ATM Term, Tenant shall remove each ATM from its ATM Space and shall restore the affected area.

STORAGE SPACE

55. (A) Landlord hereby leases to Tenant, and Tenant hereby hires and lets from Landlord, that certain 8,783 square foot (approximately) storage space located on the Lower Level of the Building and being substantially as shown on Exhibit "1-C" to this lease (the "Lower Level Storage Space"), for the Term of this lease and otherwise subject to and in accordance with the provisions of this Article 55. Landlord acknowledges that Tenant's Proportionate Share shall be unaffected by the Lower Level Storage Space.

(B) In consideration of the leasing of the Lower Level Storage Space, throughout the Term, Tenant shall pay to Landlord additional monthly rent under this lease (the "Monthly Storage Rent") in accordance with the following schedule (with each such monthly installment to be due and payable on the first day of the calendar month to which such installment corresponds):

During the first Lease Year, the Monthly Storage Rent shall be payable in equal monthly installments of \$0.00.

During the second Lease Year, the Monthly Storage Rent shall be payable in equal monthly installments of \$0.00.

During the third Lease Year, the Monthly Storage Rent shall be payable in equal monthly installments of \$0.00.

During the fourth Lease Year, the Monthly Storage Rent shall be payable in equal monthly installments of \$0.00.

During the fifth Lease Year, the Monthly Storage Rent shall be payable in equal monthly installments of \$0.00.

During the sixth Lease Year, the Monthly Storage Rent shall be payable in equal monthly installments of \$10,978.75.

During the seventh Lease Year, the Monthly Storage Rent shall be payable in equal monthly installments of \$11,280.67.

During the eighth Lease Year, the Monthly Storage Rent shall be payable in equal monthly installments of \$11,590.88.

During the ninth Lease Year, the Monthly Storage Rent shall be payable in equal monthly installments of \$11,909.63.

During the tenth Lease Year, the Monthly Storage Rent shall be payable in equal monthly installments of \$12,237.15.

During the eleventh Lease Year, the Monthly Storage Rent shall be payable in equal monthly installments of \$12,573.67.

During the twelfth Lease Year, the Monthly Storage Rent shall be payable in equal monthly installments of \$12,919.45.

In the event Tenant exercises its Renewal Option, the Monthly Storage Rent for the Renewal Term shall be determined in accordance with the same procedures by which the Minimum Annual Renewal Rent is determined under Article 52.

(C) It is understood and agreed by the parties that Tenant's right to use the Lower Level Storage Space shall be subject to the following terms and conditions:

(i) Landlord shall have right, from time to time throughout the Term of this lease, to relocate, at Landlord's expense, the Lower Level Storage Space to other storage space (of at least the same size) on the Lower Level of the Building; provided, however, that Tenant must continue to have internal staircase access from the Plaza Level Office Premises directly to the Lower Level Storage Space and, if such relocation would require the relocation of the existing internal staircase, then Landlord's proposed relocation would be subject to Tenant's review and approval of the impact of such relocation upon the design and utility of the Demised Premises;

(ii) Tenant's right to use the Lower Level Storage Space shall terminate upon the expiration or earlier termination of the Term of this lease, and thereupon, Tenant shall remove all of Tenant's Property and all Specialty Alterations made therein, if any, from the Lower Level Storage Space, leaving same vacant and in broom clean condition;

(iii) the Lower Level Storage Space may be used for storage purposes only, and access thereto may be made solely for the purpose of storing and retrieving Tenant's property; provided, however, that subject to Tenant's compliance, at Tenant's expense, with all applicable legal requirements relating to the condition of the Lower Level Storage Space or the particular manner of use thereof by Tenant, Tenant may permit full-time occupancy of a distinct portion of the Lower Level Storage Space for the operation of Tenant's mailroom therein and may also use another distinct portion of the Lower Level Storage Space for training sessions (for business-related functions);

(iv) Tenant shall ensure that the scope of the liability insurance policy(ies) required to be maintained by Tenant under this lease is expanded to include coverage of the Lower Level Storage Space in addition to the Demised Premises;

(v) Tenant shall accept possession of the Lower Level Storage Space in its "as is" condition as of the date hereof, and, except as otherwise expressly set forth in Schedule "D", Landlord shall not be responsible to perform any improvements or alterations to the Lower Level Storage Space;

(vi) Landlord reserves the right to enter the Lower Level Storage Space, at any reasonable time and with prior reasonable notice to Tenant, to inspect same, to make discretionary repairs and alterations thereto, or to show same to prospective tenants during the last twelve months of the Term; provided Landlord exercises due care to avoid damage to Tenant's property stored therein;

(vii) Tenant shall not install any fixtures, subdivide or make any improvement or alteration to the Lower Level Storage Space without the prior written consent of Landlord which consent shall not be unreasonably withheld or delayed so long as same are non-structural and in keeping with an office storage, office mailroom and office training room facility. The parties hereby acknowledge and agree that, as part of the Tenant's Initial Work, there shall be installed and connected to electric service for the Lower Level Storage Space a SUBMETER (as such term is defined in Schedule "B" to this lease) for the purpose of monitoring Tenant's consumption of ELECTRIC SERVICE (as such term is defined in Schedule "B" to this lease) in and from the Lower Level Storage Space. Throughout the Term, Tenant shall pay to Landlord, as additional rent and within thirty (30) days following billing therefor by Landlord, the charges for ELECTRICAL SERVICE consumed as measured by the SUBMETER. If, at any time during the Term, the SUBMETER shall be absent or inoperable, Tenant shall pay to Landlord additional rent for ELECTRIC SERVICE as then calculated by Landlord, using the rates then generally charged by Landlord to tenants of un-submetered spaces in the Building;

(viii) Landlord shall be obligated to provide substantially the same maintenance and janitorial services to the Lower Level Storage Space as are provided by Landlord to the Plaza Level Office Premises;

(ix) any property remaining in the Lower Level Storage Space following the expiration or earlier termination of this lease shall be deemed to have been abandoned by Tenant and may be removed and retained or disposed of by Landlord, in either event at Tenant's expense; and

(x) Tenant assumes any and all risks in the use of the Lower Level Storage Space and shall comply with any and all rules and regulations applicable thereto whether prescribed by Landlord or any governmental or quasi-governmental authority.

#### GENERATOR CONNECTION

56. (A) As part of the construction drawing preparation process for the Tenant's Initial Work, Tenant shall have the right to elect (by written notice to Landlord) to have a conduit connection made between the Demised Premises and Landlord's onsite generator, for the purpose of making available to Tenant up to 150 kVA of capacity of back-up generator electrical service for its computer and data systems as well as the supplemental air conditioning units servicing same ("Critical Load") in the event of an emergency. Landlord makes no warranties, express or implied, with regard to the quality or sufficiency of such emergency electrical service for Tenant's purposes. Moreover, Tenant is hereby advised that such back-up generator electrical service may not be immediately provided in the event of an interruption in standard electrical service to the Demised Premises and, as such, it is recommended that Tenant cause to be installed and connected to its Critical Load, at Tenant's expense and subject to the terms and conditions of this Lease relating to Alterations (including, without limitation, appropriately addressing any floor load concerns), a battery-based uninterrupted power supply system (UPS) to provide electrical service to the Critical Load during any gap between the interruption of standard electrical service and the commencement of back-up generator electrical service thereto. Throughout the Term, Tenant shall pay to Landlord, as additional rent, a monthly charge equal to the product of (a) \$2.50 (subject to increase, from time to time throughout the Term, based upon increases in Landlord's cost of maintaining, testing and operating the generators), multiplied by (b) the number of Kilo Volt-Amps (kVA) of Landlord's generator capacity allocated to Tenant.

COMMON CONFERENCE FACILITIES AND FITNESS CENTER

57. (A) Landlord and Tenant acknowledge and agree that there now and may hereafter during the Term exist a common conference or meeting room facility in a common area of the Building that is made generally available for use by tenants of the Building and others (the "Common Conference Facility"). Provided there does not then exist any Event of Default on the part of Tenant under this lease, Tenant shall have the right, from time to time throughout the Term of this lease, to use the Common Conference Facility, subject to rules, regulations and requirements then imposed by Landlord or its operator, as applicable, with respect thereto and further subject to the provisions of this Article 57. For any such use of the Common Conference Facility, Tenant shall pay the standard rates then imposed by Landlord or its operator with respect thereto, except that for every four (4) full-day uses of the Common Conference Facility with respect to which Tenant pays the full prevailing fee, Tenant shall receive one (1) free use of the Common Conference Facility. Tenant hereby acknowledges that the Common Conference Facility may be made available to multiple tenants and other users on a "first come, first served" basis. Accordingly, Tenant's ability to use the Common Conference Facility may be subject to its availability at the time and on the date desired by Tenant. Tenant may make multiple reservations of the Common Conference Facility as far in advance as Tenant may desire, provided, however, that any cancellation by Tenant of a use reserved in advance may, in Landlord's or its operator's sole discretion, subject Tenant to a cancellation charge if such cancellation is made later than two weeks prior to the date so reserved (such cancellation charge not to exceed the amount that would have been payable by Tenant for the subject use had same not been cancelled by Tenant). Landlord and any such operator shall have the right to suspend or discontinue Tenant's access to or use of the Common Conference Facility at any time if Tenant or any of Tenant's Related Parties violates any of the rules, regulations or conditions governing use thereof. The right described herein shall not be construed as an appurtenance to Tenant's leasehold interest, nor shall anything set forth herein be construed as to obligate Landlord or any such operator to maintain the Common Conference Facility or any other conference facilities at the Building for any portion of the Term.

(B) (i) Landlord and Tenant acknowledge and agree that there now and may hereafter during the Term exist an equipped fitness center in the common areas of the Building that is made generally available for use by employees of tenants of the Building and others (the "Fitness Center"). Provided there does not then exist any Event of Default on the part of Tenant under this lease, Tenant shall have the right, from time to time throughout the Term of this lease, to permit its employees at the Building to use the Fitness Center, subject to rules, regulations and requirements then imposed by Landlord or its operator, as applicable, with respect thereto and further subject to the provisions of this Article 57. Any such usage shall require the purchase by the subject employee of a membership to the Fitness Center at the standard rates then imposed by Landlord or its operator, as applicable. If Tenant purchases ten (10) or more memberships in a single batch, then Tenant shall be afforded a twenty (20%) percent discount off of the then-standard membership fee for that batch of memberships. Landlord and any such operator shall have the right to suspend or discontinue any Tenant employee's access to or use of the Fitness Center at any time if such employee violates any of the rules, regulations or conditions governing use thereof. The right described herein shall not be construed as an appurtenance to Tenant's leasehold interest, nor shall anything set forth herein be construed as to obligate Landlord or any such operator to maintain the Fitness Center at the Building for any portion of the Term.



(ii) Anything in this Article 57 or elsewhere in this lease to the contrary notwithstanding, Tenant shall not grant to any employee the right, and no employee of Tenant shall be permitted, to use the Fitness Center unless and until Tenant (a) shall have notified Landlord that Tenant has granted such right to such employee and (b) shall have caused such employee to complete and execute a waiver of liability on Landlord's or its operator's standard form, as applicable, and delivered such executed document to Landlord or its operator, as applicable. Tenant shall prohibit, and shall take all steps necessary to prevent, any employees of Tenant who have failed to execute the aforesaid waiver of liability from using the Fitness Center.

(iii) Tenant acknowledges that all users of the Fitness Center do so at their own risk and agrees that it shall be solely Tenant's obligation to fully inform each of Tenant's employees to whom the right to use the Fitness Center may be granted of such risk. Tenant acknowledges and agrees that none of Landlord, its affiliates or their respective operators shall have any liability to Tenant or any employee of Tenant or any person claiming through or under either of the foregoing arising from or in connection with the use of any of the Fitness Center by any of Tenant's employees or out of the manner of operation and/or maintenance of the Fitness Center (except where arising out of the gross negligence or willful misconduct of the party to be held liable); and that Tenant shall indemnify and hold harmless Landlord, its affiliate and their respective operators, as applicable, against and from any and all such claims, together with all costs, expenses and liabilities incurred in connection with each such claim or action or proceeding brought thereon, including, without limitation, all reasonable attorneys' fees and disbursements.

## PILOT PROGRAM

58. (A) The parties hereby acknowledge and agree that Tenant has applied for an incentive program through the Town of Hempstead Industrial Development Agency ("IDA"), which may have the effect of fixing certain Taxes with respect to the Demised Premises through a Payment-In-Lieu-Of-Taxes Program ("PILOT Program"). It is the intention of the parties that the full benefit to be derived from the PILOT Program shall be realized by Tenant, provided that, in connection with or in furtherance of the PILOT Program, Landlord shall not be obligated to make payments to or at the direction of the IDA which, when aggregated, exceed the aggregate amount that would otherwise be payable by Landlord in the absence of the PILOT Program.

(B) Landlord and Tenant hereby acknowledge and agree that the PILOT Program shall have no impact upon the respective rights, entitlements, obligations and liabilities of Landlord and Tenant under Article 11 of this lease. However, at least one time per Lease Year throughout so much of the Term that the PILOT Program remains in force and effect, Landlord shall perform the Reconciliation Analysis (hereinafter defined), which shall be subject to Tenant's review, and, thereupon, as applicable, Landlord will pay or credit to Tenant the full amount of the PILOT Savings (hereinafter defined) for the subject period covered by the Reconciliation Analysis or Tenant will pay and reimburse Landlord for the full amount of PILOT Loss for the subject period covered by the Reconciliation Analysis. The payment obligations of Landlord and Tenant pursuant to this Article 58(B) shall survive expiration or termination of this Lease. As used herein, the term "Reconciliation Analysis" shall mean the review and analysis of the differential between (i) the But For Premises Tax Amount (hereinafter defined) for the subject period; and (ii) the PILOT Program payment amount made with respect to that same subject period. If the But-For Premises Tax Amount for the subject period is greater than the PILOT Program payment amount made for that same subject period, then the difference between those two amounts shall be herein referred to as the "PILOT Savings". If the PILOT Program payment amount for a subject period is greater than the But-For Premises Tax Amount for that same subject period, then the difference between those two amounts shall be herein referred to as the "PILOT Loss". As used herein, the term "But-For Premises Tax Amount" shall mean the total amount of Taxes that would have been payable with respect to the Premises for a subject period in the absence of the PILOT Program.

(C) Landlord shall reasonably cooperate with Tenant, at no material cost to Landlord, in Tenant's efforts to consummate the PILOT Program arrangement with the IDA and to procure the benefits of such PILOT Program arrangement when so consummated. In furtherance of such cooperation, Landlord shall enter into such agreements as may be necessary and appropriate for the benefits of the PILOT Program to be established and procured (collectively, the "PILOT Agreement") and shall thereafter also comply with the obligations of Landlord under the PILOT Agreement; provided, however, that (i) each such PILOT Agreement shall be subject to the prior review and approval of Landlord which approval shall not be unreasonably withheld or delayed; (ii) Landlord's sole obligation under the PILOT Agreement shall be to timely remit the payments payable under the PILOT Agreement directly to the payment address specified under the PILOT Agreement; (iii) the PILOT Agreement payment obligations of Landlord must be offset by a corresponding exemption from Taxes with respect to the Premises; (iv) the PILOT Agreement must not include the creation of any encumbrance upon title to the Building or the Real Property; and (v) Landlord must have no liability for any "claw-back" or "recapture" of the benefits bestowed via the PILOT Program or for any other fine, charge or imposition that may relate to the failure by Tenant to satisfy any conditions or requirements of the PILOT Program.

(D) [Intentionally Omitted]

(E) In the event Landlord does not remit a PILOT Payment payable under the PILOT Agreement beyond any applicable notice and grace period provided thereunder (a "LL PILOT Default"), then Tenant, as its sole and exclusive remedy, shall have the right to cure such LL PILOT Default by remitting the payment(s) then due under the PILOT Agreement, plus any interest and penalties thereon arising as a result of the LL PILOT Default (the "Cure Payment"). In such event, Landlord will reimburse Tenant for the amount of the Cure Payment within thirty (30) days following written demand therefor by Tenant, failing which Tenant may, subject to the dispute resolution provision set forth below, offset (until exhausted) the amount of the Cure Payment against the then next due installment(s) of Rent payable under this lease. Notwithstanding the foregoing, however, if Landlord in good faith shall dispute either the fact that there has occurred a LL PILOT Default or the amount of the Cure Payment that was required in connection with a LL PILOT Default, then, within the thirty (30) day period referenced above in this Article 58(E), Landlord shall give Tenant written notice specifying in reasonable detail the basis for its dispute, and in such event, Tenant may not invoke any such offset rights as to the disputed amount unless and until (and then only to the extent) Tenant has obtained a judgment for the disputed Cure Payment from a court of competent jurisdiction and Landlord shall have failed to pay the amount of the judgment within fifteen (15) days following such judgment having become final and non-appealable.

## REGULATORY APPROVALS

59. The obligations of Tenant under this Lease solely as they relate to the Plaza Level Bank Branch Premises are subject to, and conditioned on, Tenant obtaining all necessary regulatory approvals for the operation of a bank branch at the Plaza Level Bank Branch Premises (the "Approvals"). Tenant shall, at Tenant's expense (i) promptly following the date of the execution of this Lease apply for the Approvals, (ii) use reasonable efforts to obtain the Approvals, (iii) keep Landlord informed of the status of obtaining the Approvals and (iv) notify Landlord promptly upon obtaining the Approvals. Tenant, its architects and contractors shall have complete access to the Plaza Level Bank Branch Premises during the Approval Period (as defined below but shall not be permitted to perform any construction during the Approval Period). If the Approvals are granted on or before the expiration of the Approval Period, then this Article shall be deemed null and void, and this Lease shall remain in full force and effect according to its terms. If the Approvals are not granted on or before the 30<sup>th</sup> day following the date of execution of this Lease (the "Approval Period"), Tenant shall have the right to terminate this Lease solely as it relates to the Plaza Level Bank Branch Premises upon written notice to Landlord within five (5) days following the expiration of the Approval Period. If Tenant does not exercise its right to terminate as provided above, then this Lease shall continue in full force and effect as if the Tenant had obtained the Approvals. If Tenant does exercise its right to terminate as provided above, the parties will promptly prepare and execute an amendment to this Lease which reflects the fact that the Plaza Level Bank Branch Premises are not part of the Demised Premises.

IN WITNESS WHEREOF, Landlord and Tenant have respectively signed and sealed this lease as of the day and year first above written.

Landlord: REXCORP PLAZA SPE LLC

By: /s/ Richard J. Conniff  
Name: Richard J. Conniff  
Authorized Person

Tenant: FLUSHING BANK

By: /s/ Maria A. Grasso  
Name: Maria A. Grasso  
Title: Senior Executive Vice President and Chief Operating Officer

**FLUSHING FINANCIAL CORPORATION**  
**2014 OMNIBUS INCENTIVE PLAN**

1. **Purpose** . The purpose of this 2014 Omnibus Incentive Plan (the “*Plan*”) is to aid Flushing Financial Corporation, a Delaware corporation (together with its successors and assigns, the “*Company*”), in attracting, retaining, motivating and rewarding employees and non-employee directors of the Company and its subsidiaries and affiliates, to provide for equitable and competitive compensation opportunities, to recognize individual contributions and reward achievement of Company goals, and promote the creation of long-term value for stockholders by closely aligning the interests of Participants with those of stockholders. The Plan authorizes stock-based and cash-based incentives for Participants.

2. **Definitions** . In addition to the terms defined in Section 1 and elsewhere in the Plan, the following capitalized terms used in the Plan have the respective meanings set forth in this Section:

(a) “*Annual Incentive Award*” means a type of Performance Award granted to a Participant under Section 7(c) representing a conditional right to receive cash, Stock or other Awards or payments, as determined by the Committee, based on performance in a performance period of one fiscal year or a portion thereof.

(b) “*Award*” means any Option, SAR, Restricted Stock, RSU, Bonus Stock, award granted in lieu of obligations, Dividend Equivalent, Other Stock-Based Award, Performance Award or Annual Incentive Award granted to a Participant under the Plan, and may be a 409A Award or a Non-409A Award.

(c) “*Beneficiary*” means the legal representatives of a Participant’s estate entitled by will or the laws of descent and distribution to receive the benefits under the Participant’s Award(s) upon the Participant’s death.

(d) “*Board*” means the Company’s Board of Directors.

(e) “*Bonus Stock*” means Stock granted under Section 6(f).

(f) “*Change in Control*” has the meaning specified in Section 10.

(g) “*Code*” means the Internal Revenue Code of 1986, as amended. Reference to any Code provision includes any regulation thereunder and any successor provisions and regulations, and reference to regulations includes any applicable guidance or pronouncement of the Department of the Treasury and/or Internal Revenue Service.

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(h) “ **Committee** ” means the Compensation Committee of the Board, the composition and governance of which is subject to applicable NASDAQ “independence” and other listing requirements and the Company’s corporate governance documents. Each member of the Compensation Committee shall also meet the definition of “outside director” under the provisions of Section 162(m) of the Code and the definition of “non-employee director” under the provisions of the Exchange Act. No Committee action shall be void or deemed to be without authority due to the failure of any member, at the time the action was taken, to meet any applicable qualification standard. Until such time as determined by the Board (in its sole discretion), reference in this Plan to action by the Committee shall require approval by both the Compensation Committee and the Board.

(i) “ **Dividend Equivalent** ” means a right, granted under this Plan, to receive cash, Stock, other Awards or other property equal in value to all or a specified portion of the dividends paid with respect to a specified number of shares of Stock.

(j) “ **Effective Date** ” means the effective date specified in Section 11(o).

(k) “ **Exchange Act** ” means the Securities Exchange Act of 1934, as amended. References to any provision of the Exchange Act or rule thereunder shall include any successor provisions and rules.

(l) “ **Fair Market Value** ” means the fair market value of Stock, Awards, or other property as determined in good faith by the Committee or under procedures established by the Committee, subject to any restrictions imposed by Code Section 409A. Unless otherwise determined by the Committee, the Fair Market Value of Stock as of any given date shall be the mean between the highest and lowest quoted selling price, regular way, of the Stock on the NASDAQ Stock Market (or the principal exchange or market on which the Stock is listed or traded) on the day before such date, (or, if no such sale of Stock occurs on such day, the mean between the highest and lowest quoted selling price on the nearest trading day before such day).

(m) “ **409A Award** ” means an Award that constitutes a deferral of compensation under Code Section 409A. “ **Non-409A Award** ” means an Award other than a 409A Award.

(n) “ **Formula Award** ” means an Award granted to non-employee directors under Section 8.

(o) “ **Group** ” means the Company and its subsidiaries and affiliates, or any members of the Group, as the context requires.

(p) “ **Incentive Stock Option** ” or “ISO” means an Option which both is designated as an incentive stock option and qualifies as an incentive stock option within the meaning of Code Section 422.

(q) “ **Option** ” means a right, granted under Section 6(b), to purchase Stock.

(r) “ **Other Stock-Based Award** ” means an Award granted under Section 6(h).

(s) “ **Participant** ” means a person who has been granted an Award under the Plan which remains outstanding, including a person who is no longer an employee of the Group or a director of the Company.

(t) “ **Performance Award** ” means a conditional right, granted under Sections 6(i) and 7, to receive cash, Stock or other Awards or payments. A Performance Award may, but need not, qualify as “performance-based compensation” for purposes of Code Section 162(m).

(u) “ **Restricted Stock** ” means Stock granted under Section 6(d) which is subject to certain restrictions and to a risk of forfeiture.

(v) “ **Restricted Stock Unit** ” or “ **RSU** ” means a right, granted under Section 6(e), to receive Stock (or the Fair Market Value thereof) at the end of a specified deferral period.

(w) “ **Stock** ” means the Company’s common stock, par value \$.01 per share, and any other equity securities of the Company that may be substituted or resubstituted for Stock pursuant to Section 11(c).

(x) “ **Stock Appreciation Right** ” or “ **SAR** ” means a right granted under Section 6(c).

### 3. Administration .

(a) **Authority of the Committee** . The Plan shall be administered by the Committee, which shall have full authority and discretion, in each case subject to and consistent with the provisions of the Plan, to select the persons to whom Awards will be granted from among those eligible; to grant Awards; to determine the type and number of Awards; to determine the terms and conditions of Awards, including the dates on which Awards may be exercised and/or on which the risk of forfeiture or deferral period relating to Awards shall lapse or terminate, the acceleration of any such dates (to the extent such acceleration is either outside the scope of or permitted by Code Section 409A), the expiration date of any Award, and whether, to what extent, and under what circumstances an Award may be settled, or the exercise price of an Award may be paid, in cash, Stock, other Awards, or other property, and all other matters relating to Awards; to prescribe Award documents evidencing or setting terms of Awards (which Award documents need not be identical for each Participant), amendments thereto, and rules and regulations for the administration of the Plan and amendments thereto; to construe and interpret the Plan, related administrative rules and Award documents, and to correct defects, supply omissions or reconcile inconsistencies therein; and to make all other decisions and determinations as the Committee may deem necessary or advisable for the administration of the Plan. Decisions of the Committee with respect to the administration and interpretation of the Plan shall be final, conclusive, and binding upon all persons interested in the Plan, including stockholders of the Company, Participants, Beneficiaries, permitted transferees of Awards and any other persons claiming rights from or through a Participant.



(b) **Manner of Exercise of Committee Authority** . The express grant of any specific power to the Committee, and the taking of any action by the Committee, shall not be construed as limiting any power or authority of the Committee. The Committee may delegate to officers or employees of the Group, or committees thereof, the authority, subject to such terms as the Committee shall determine, to perform such functions, including administrative functions, as the Committee may determine, to the extent consistent with Rule 16b-3 under the Exchange Act and Code Section 162(m), where applicable, and permitted by the Delaware General Corporation Law.

(c) **Limitation of Liability** . The Board and Committee and each member thereof, and any person acting pursuant to authority delegated by the Board or Committee, shall be entitled, in good faith, to rely or act upon any report or other information furnished by any officer or employee of the Group, or the Company's independent auditors, consultants or any other agents assisting in the administration of the Plan. Board and Committee members, any person acting pursuant to authority delegated by the Board or Committee, and any officer or employee of the Group acting at the direction or on behalf of the Board or Committee or a delegee shall not be personally liable for any action or determination taken or made in good faith with respect to the Plan, and shall, to the extent permitted by law, be fully indemnified and protected by the Company with respect to any such action or determination.

#### **4. Stock Subject To Plan.**

(a) **Overall Number of Shares Available for Delivery** . The total number of shares of Stock reserved and available for delivery in connection with Awards under the Plan shall be 1,100,000 shares and shall not include any additional shares that are or become available for awards under the any pre-existing plans. No more than 250,000 shares of Stock may be issued with respect to ISOs. The total number of shares available under the Plan and the number of shares available for ISOs are subject to adjustment as provided in Section 11(c). Any shares of Stock delivered under the Plan may consist of authorized and unissued shares or treasury shares.

(b) **Replenishment Rules** . To the extent that an Award under the Plan is canceled, expired, forfeited, settled in cash, settled by issuance of fewer shares than the number underlying the award, or otherwise terminated without delivery of shares to a Participant, the shares retained by or returned to the Company shall be available under the Plan. Shares that are withheld from an Award or separately surrendered by a Participant in payment of the exercise price or taxes relating to an award shall be deemed to constitute shares not delivered to a Participant, and will therefore be available under the Plan.

(c) **Reinvested Dividends**. The number of shares available for issuance under the Plan shall not be reduced to reflect any dividends or dividend equivalents that are reinvested into additional shares or credited as additional Restricted Stock, RSUs, or other Awards.

(d) **Substitute Awards for Acquired Business** . Shares issued or issuable in connection with any Award granted in assumption of or in substitution for an award of a company or business acquired by the Company or the Group, or with which the Company or the Group combines, shall not be counted against the number of shares reserved under the Plan.

5. **Eligibility; Per-Person Award Limitations** .

(a) **Eligibility** . Non-employee directors shall automatically receive Formula Awards under Section 8 of the Plan, unless the Committee in its discretion determines otherwise. The Committee shall have discretion to grant Awards under the Plan only to an individual who is (i) a director or an employee (including an executive officer) of the Group, or (ii) a person who has been offered employment by the Group, provided that any grant to a prospective employee shall not be effective until such person has commenced employment with the Group. An employee on leave of absence may be considered as still in the employ of the Group for purposes of eligibility for participation in the Plan. In addition to the persons referred to in the first sentence of this Section 5(a), holders of awards granted by a company or business acquired by the Company or the Group, or with which the Company or Group combines, are eligible for grants of Awards under the Plan in assumption of or substitution for such previously granted awards.

(b) **Per-Person Award Limitations** .

(i) **Stock-Based Awards** . In the case of Awards that are intended to qualify as “performance-based compensation” under Code Section 162(m) and that are denominated by reference to a number of shares, the maximum number of shares with respect to which such Awards may be granted to an eligible employee in any calendar year is 250,000 shares (subject to adjustment as provided in Section 11(c)). This limitation shall apply to Dividend Equivalents under Section 6(g) only if such Dividend Equivalents are granted separately from, and not as a feature of, another Award. Awards that are not intended to qualify as “performance-based compensation” under Code Section 162(m) are not subject to annual limits under this Section.

(ii) **Cash-Based Awards** . In the case of Awards that are intended to qualify as “performance-based compensation” under Code Section 162(m) and that are not denominated by reference to a number of shares, (i) the maximum amount or value which may be granted as an Annual Incentive Award to an eligible employee in any calendar year is \$2 million, and (ii) the maximum amount or value which may be granted as a Performance Unit Award or other long-term cash-based Award to an eligible employee in any calendar year is \$6 million. The annual limit for grants of cash-based Awards under this paragraph is a separate limitation which is not affected by the number of Awards granted which are denominated by reference to a number of shares. The maximum amount or value under this paragraph is measured as the maximum amount or value that the employee would be eligible to receive under the Award upon satisfaction of the performance conditions, without regard to whether such amount is to be paid at the end of the performance period or on a deferred basis or continues to be subject to any service requirement or other non-performance condition. As such, the maximum amount does not include any amounts which may be credited as dividends, dividend equivalents, or earnings on such Award either during or after the performance period.

(iii) *Non-Employee Director Awards.* In the case of Awards to non-employee directors that are denominated by reference to a number of shares, the maximum number of shares with respect to such Awards granted to a director in any calendar year is 10,000 shares (subject to adjustment as provided in Section 11(c)). This limit does not affect the amount of cash directors' fees that may be paid to non-employee directors.

## 6. Specific Terms Of Awards .

(a) *General.* Awards may be granted on the terms and conditions set forth in this Section 6, subject to any additional requirements set forth in Section 9. In addition, the Committee may impose on any Award or the exercise thereof, at the date of grant or thereafter (subject to Sections 11(e) and 11(j)), such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall determine. The Committee shall retain full power and discretion with respect to any term or condition of an Award that is not mandatory under the Plan, subject to Section 11(j). The Committee shall require the payment of lawful consideration for an Award to the extent necessary to satisfy the requirements of the Delaware General Corporation Law, and may otherwise require payment of consideration for an Award except as limited by the Plan.

(b) *Options.* The Committee is authorized to grant Options under the Plan on the following terms and conditions:

(i) *Exercise Price.* The exercise price per share of Stock purchasable under an Option (including both ISOs and non-qualified Options) shall be determined by the Committee, provided that such exercise price shall be not less than the Fair Market Value of a share of Stock on the date of grant of such Option, except as provided in Section 9(a).

(ii) *Option Term; Time and Method of Exercise.* The Committee shall determine the term of each Option, provided that in no event shall the term of any Option exceed a period of ten years from the date of grant. The Committee shall determine the time or times at which or the circumstances under which an Option may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements, subject to the requirements of Section 9(d)); the methods by which such exercise price may be paid or deemed to be paid and the form of such payment (subject to any limitations imposed by Code Section 409A or other applicable law), including, without limitation, cash, Stock, withholding of Stock deliverable upon exercise (i.e., "net exercise"), through broker-assisted "cashless exercise" arrangements, by delivery of other Awards or awards granted under other plans of the Company or the Group, or other property, or by any other method determined by the Committee; and the methods by or forms in which Stock will be delivered or deemed to be delivered to Participants upon Option exercise.

(iii) *ISOs* . The terms of any ISO granted under the Plan shall satisfy the requirements of Code Section 422. Any Option designated as an ISO which fails to satisfy all the requirements of Code Section 422 shall be treated as a non-qualified Option.

(c) ***Stock Appreciation Rights*** . The Committee is authorized to grant SARs under the Plan on the following terms and conditions:

(i) *Right to Payment* . An SAR shall confer on the Participant to whom it is granted a right to receive, upon exercise or settlement thereof, an amount payable in shares or cash equal to the excess of (A) the Fair Market Value of one share of Stock on the date of exercise over (B) the grant price of the SAR as determined by the Committee, provided that such grant price shall not be lower than the Fair Market Value of the Company's Stock on the grant date (except as provided in Section 9(a)).

(ii) *Other Terms* . The Committee shall determine the term of each SAR, provided that in no event shall the term of an SAR exceed a period of ten years from the date of grant. The Committee shall determine, at the date of grant or thereafter (subject to Sections 11(e) and 11(j)), the time or times at which and the circumstances under which a SAR may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements, subject to the requirements of Section 9(d)), the method of exercise, the time and method of settlement, the form of consideration payable in settlement (which may include cash, Stock, other property, or a combination thereof), and the method by or forms in which Stock will be delivered or deemed to be delivered to Participants.

(d) ***Restricted Stock*** . The Committee is authorized to grant Restricted Stock under the Plan on the following terms and conditions:

(i) *Grant and Restrictions* . Restricted Stock shall be subject to such restrictions on transferability, risk of forfeiture and other restrictions, if any, as the Committee may impose (subject to the requirements of Section 9(d)), which restrictions may lapse separately or in combination at such times, under such circumstances (including based on achievement of performance goals and/or future service requirements), in such installments or otherwise and under such other circumstances as the Committee may determine at the date of grant or thereafter. Except to the extent restricted under the terms of the Award document, a Participant granted Restricted Stock shall have all of the rights of a stockholder, including the right to vote the Restricted Stock and the right to receive dividends thereon (subject to any vesting, mandatory reinvestment or other requirement imposed by the Committee).

(ii) *Forfeiture* . Except as otherwise determined by the Committee, upon termination of employment or service during the applicable restriction period, Restricted Stock that is at that time subject to restrictions shall be forfeited and reacquired by the Company; provided that the Committee may provide, by rule or regulation or in any Award document, or may determine in any individual case, that restrictions or forfeiture conditions relating to Restricted Stock will lapse in whole or in part, including in the event of terminations resulting from specified causes.

(iii) *Certificates for Stock* . Restricted Stock granted under the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing Restricted Stock are registered in the name of a Participant, the Committee may require that such certificates bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Restricted Stock; that the Company retain physical possession of the certificates; and that the Participant deliver a stock power to the Company, endorsed in blank, relating to the Restricted Stock.

(iv) *Dividends and Splits* . The Committee may require that any dividends paid on a share of Restricted Stock shall be either (A) paid at the dividend payment date in cash, in kind, or in a number of shares of unrestricted Stock having a Fair Market Value equal to the amount of such dividends, or (B) automatically reinvested in additional Restricted Stock or held in kind, in either case subject to the same terms as applied to the original Restricted Stock to which it relates, or (C) deferred as to payment, either as a cash deferral or with the amount or value thereof automatically deemed reinvested in RSUs, other Awards or other investment vehicles (including cash equivalents bearing a fixed or formula rate of interest as determined by the Committee), subject to such terms as the Committee shall determine or permit a Participant to elect. Unless otherwise determined by the Committee, Stock distributed in connection with a Stock split or Stock dividend, and other property distributed as a dividend, shall be subject to restrictions and a risk of forfeiture to the same extent as the Restricted Stock with respect to which such Stock or other property has been distributed.

(e) *Restricted Stock Units* . An RSU entitles the Participant to receive one share of Stock (or the Fair Market Value of a share) at a specified time. The Committee is authorized to grant RSUs under the Plan on the following terms and conditions:

(i) *Award and Restrictions* . Issuance of Stock or payment of the cash or other property to which the Participant is entitled under the RSU Award will occur upon expiration of the deferral period specified for such Award by the Committee (or, if permitted by the Committee, as elected by the Participant). RSUs shall be subject to such restrictions on transferability, risk of forfeiture and other restrictions, if any, as the Committee may impose (subject to the requirements of Section 9(d)), which restrictions may lapse at the expiration of the deferral period or at earlier specified times (including based on achievement of performance goals and/or future service requirements), separately or in combination, in installments or otherwise, and under such other circumstances as the Committee may determine at the date of grant or thereafter. RSUs may be satisfied by delivery of Stock, cash, other Awards, or other property, or a combination thereof, as determined by the Committee at the date of grant or thereafter. The time and/or circumstances of such delivery shall be determined by the Committee subject to any limitations imposed by Code Section 409A.

(ii) *Forfeiture* . Upon termination of employment or service during the portion of the deferral period to which forfeiture conditions apply (as provided in the Award document evidencing the RSUs), all RSUs that are at that time subject to such forfeiture conditions shall be forfeited; provided that the Committee may provide, by rule or regulation or in an Award document, or may determine in any individual case, that restrictions or forfeiture conditions relating to RSUs will lapse in whole or in part, including in the event of terminations resulting from specified causes. Notwithstanding the foregoing, the Committee shall have no authority to shorten or lengthen the deferral period specified for an RSU Award except as permitted under Code Section 409A.

(iii) *Dividend Equivalents* . The Committee may determine whether or not an Award of RSUs shall entitle the Participant to receive Dividend Equivalents, and may require that Dividend Equivalents on the number of shares of Stock covered by an Award of RSUs shall be either (A) paid at the dividend payment date in cash or in shares of unrestricted Stock having a Fair Market Value equal to the amount of such dividends, or (B) deferred as to payment for such period as specified by the Committee, either as a cash deferral or with the amount or value thereof automatically deemed reinvested in additional RSUs, other Awards, or other investment vehicles (including cash equivalents bearing a fixed or formula rate of interest as determined by the Committee). Unless otherwise determined by the Committee, in the case of a dividend payable in Stock, the Dividend Equivalent on such dividend shall be credited as additional RSUs, which shall be subject to restrictions and a risk of forfeiture to the same extent as the RSUs with respect to which it was distributed and shall have the same deferral period as such RSUs.

(f) *Bonus Stock and Awards in Lieu of Obligations* . The Committee is authorized to grant Stock as a bonus, or to grant Stock or other Awards in lieu of obligations of the Company or Group to pay cash or deliver other property under the Plan or under other plans or compensatory arrangements. All Awards under this Section 6(f) shall be subject to such terms as shall be determined by the Committee (subject to Sections 9(c) and (d)).

(g) *Dividend Equivalents* . The Committee is authorized to grant Dividend Equivalents under the Plan which may be awarded on a free-standing basis or in connection with another Award. The Committee may provide that Dividend Equivalents shall be paid or distributed when accrued or on a deferred basis (in each case subject to any limitations imposed by Code Section 409A). Deferred amounts may be deferred as a fixed dollar amount or may be deemed to have been reinvested in additional Stock, Awards, or other investment vehicles (including cash equivalents bearing a fixed or formula rate of interest as designated by the Committee), and shall be subject to restrictions on transferability, risks of forfeiture and such other terms as the Committee may specify.

(h) **Other Stock-Based Awards** . The Committee is authorized, subject to limitations under applicable law, to grant such other Awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Stock or factors that may influence the value of Stock, including, without limitation, convertible or exchangeable debt securities; other rights convertible or exchangeable into Stock; purchase rights for Stock; performance units or performance shares; Awards with value and payment contingent upon performance of the Company or business units thereof or any other factors designated by the Committee; and Awards valued by reference to the book value of Stock or the value of securities of (or the performance of) specified subsidiaries or affiliates or other business units. The Committee shall determine the terms and conditions of such Awards (subject to Section 9). Stock delivered pursuant to an Award in the nature of a purchase right granted under this Section 6(h) shall be purchased for such consideration, paid for at such times, by such methods, and in such forms, including, without limitation, cash, Stock, other Awards, notes, or other property, as the Committee shall determine.

(i) **Performance Awards** . Performance Awards, denominated in cash or in Stock or other Awards, may be granted by the Committee in accordance with Section 7.

**7. Performance Awards, including Annual Incentive Awards .**

(a) **Performance Awards Generally** . Performance Awards may be denominated as a cash amount or a number of shares of Stock which will be earned, and/or a specified number of Awards which will be granted, upon achievement or satisfaction of performance conditions specified by the Committee. In addition, the Committee may constitute any other Award as a Performance Award by conditioning the right of a Participant to exercise the Award or have it settled, and/or the vesting or timing thereof, upon achievement or satisfaction of such performance conditions as may be specified by the Committee. The Committee may use such business criteria and other measures of performance as it may deem appropriate in establishing any performance conditions (including, but not limited to, the criteria set forth in Section 7(b)(ii)), and may exercise its discretion to reduce or increase the amounts payable under any Award subject to performance conditions. Notwithstanding the foregoing, any Award intended to qualify as “performance-based compensation” under Code Section 162(m) (other than Options and SARs) shall be subject to the additional limitations set forth in Section 7(b).

(b) **Code Section 162(m) Awards** . If the Committee determines that a Performance Award (other than an Option or SAR) is intended to qualify as “performance-based compensation” for purposes of Code Section 162(m), the grant, exercise, vesting, and/or settlement of such Performance Award shall be contingent upon achievement of a pre-established performance goal and such Award shall comply with the other requirements set forth in this Section 7 (b).

(i) *Performance Goal Generally* . The performance goal for such Performance Awards shall consist of one or more business criteria and a targeted level or levels of performance with respect to each of such criteria, as specified by the Committee consistent with this Section 7(b). The performance goal shall be objective and shall otherwise meet the requirements of Code Section 162(m), including the requirement that the level or levels of performance targeted by the Committee result in the achievement of performance goals being “substantially uncertain” within the meaning of Code Section 162(m). The Committee may determine that such Performance Awards shall be granted, exercised, vested, and/or settled upon achievement of any one performance goal, or any one of several performance goals, or that two or more of the performance goals must be achieved as a condition to grant, exercise, vesting, and/or settlement of such Performance Awards. Performance goals may differ for Performance Awards granted to any one Participant or to different Participants.

(ii) *Business Criteria* . One or more of the following business criteria for the Company, on a consolidated basis, and/or for specified subsidiaries or affiliates or other business units of the Company shall be used by the Committee in establishing performance goals for Performance Awards granted under this Section 7(b): (1) sales or other sales or revenue measures; (2) operating income, earnings from operations, core operating earnings, or earnings or core operating earnings before or after one or more of interest, taxes, depreciation, amortization, or extraordinary items; (3) net income, net income or core operating earnings per common share (basic or diluted), or net interest income; (4) earnings before provision for taxes; (5) operating efficiency ratio; (6) return on average assets, return on investment, return on capital, return on average equity, or core operating return on average equity; (7) tangible book value per share; (8) Tier-1 common equity; (9) cash flow, free cash flow, cash flow return on investment, or net cash provided by operations; (10) loan originations, loan production, loan growth, non-performing loans; (11) asset quality measures; (12) deposits or deposit growth; (13) net interest, net interest spread, net interest margin; (14) fee income; (15) economic profit or value created; (16) operating margin; (17) stock price or total stockholder return; and (18) strategic business criteria, consisting of one or more objectives based on meeting specified market penetration or geographic business expansion goals, cost targets, customer satisfaction, employee satisfaction, management of employment practices and employee benefits, supervision of litigation, goals with respect to information technology, implementation or completion of critical projects, and goals relating to acquisitions or divestitures of subsidiaries, affiliates, branches, or joint ventures. The targeted level or levels of performance with respect to such business criteria may be established at such levels and in such terms as the Committee may determine, in its discretion, including in absolute terms, in relation to one another, as a goal relative to performance in prior periods, or as a goal compared to the performance of one or more comparable companies or an index covering multiple companies.



(iii) *Performance Period; Timing for Establishing Performance Goals* . Achievement of performance goals in respect of such Performance Awards shall be measured over a performance period specified by the Committee, which may be one year, or less or more than one year. A performance goal shall be established not later than the earlier of (A) 90 days after the beginning of any performance period applicable to such Performance Award or (B) the time 25% of such performance period has elapsed. At the time of establishing the performance goals, the Committee may specify the circumstances in which such Performance Awards shall be paid in the event of termination of the Participant's employment prior to the end of the performance period, which may differ depending on the circumstances of the termination; provided that, to the extent required by Code Section 162(m), payment shall not exceed the amount the Participant would have received had he or she remained in employment through the end of the performance period.

(iv) *Performance Award Pool* . The Committee may establish a Performance Award pool, which shall be an unfunded pool, for purposes of measuring performance of the Company in connection with Performance Awards. The amount of such Performance Award pool shall be based upon the achievement of a performance goal or goals based on one or more of the business criteria set forth in Section 7(b)(ii) during the given performance period, as specified by the Committee in accordance with Section 7(b)(iii). The Committee may specify the amount of the Performance Award pool as a percentage of any of such business criteria, a percentage thereof in excess of a threshold amount, or as another amount which need not bear a strictly mathematical relationship to such business criteria. In addition, (i) the maximum amount payable from such pool to any Participant whose Award is intended to qualify as "performance-based" under Code Section 162(m) must be stated in terms of a percentage of the pool, (ii) the sum of all individual percentages of the pool is not permitted to exceed 100 percent, and (iii) no Participant may receive in excess of his or her stated percentage.

(v) *Written Determinations* . Prior to payment or settlement of each Award subject to this Section 7(b), the Committee shall certify in writing, in a manner which satisfies the requirements of Code Section 162(m), that the performance objective(s) relating to the Performance Award and other material terms of the Award upon which payment or settlement of the Award was conditioned have been satisfied.

(vi) *Settlement of Performance Awards* . Settlement of Performance Awards may be in cash, Stock, other Awards or other property, as determined by the Committee during the time period specified in Section 7(b)(iii). The Committee may, in its discretion, reduce (but not increase) the amount payable in respect of a Performance Award subject to this Section 7(b). Any settlement which changes the form of payment from that originally specified shall be implemented in a manner such that the Performance Award and other related Awards do not, solely for that reason, fail to qualify as "performance-based compensation" for purposes of Code Section 162(m).

(vii) *Limitation on Committee Discretion.* No provision of the Plan giving the Committee discretion to modify the terms of an Award shall be deemed to confer upon the Committee or any other person discretion to increase the amount of compensation payable in connection with an Award that is intended to constitute “performance-based compensation” under Code Section 162(m) or to otherwise modify the terms of such Award in a manner that does not satisfy Code Section 162(m).

(c) *Annual Incentive Awards.* The Committee may grant Annual Incentive Awards under the Plan. If an Annual Incentive Award is not intended to qualify as “performance-based compensation” for purposes of Code Section 162(m), such Award shall comply with the provisions of Section 7 (a). If an Annual Incentive Award is intended to qualify as “performance-based compensation” for purposes of Code Section 162(m), such Award shall comply with the provisions of Section 7(b).

(d) *Adjustments to Performance Goals.* The Committee is authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards (including the performance goals and amounts payable under Performance Awards and the amount of any unfunded Performance Award pool relating thereto) (i) in recognition of unusual or nonrecurring events (including, without limitation, events described in Section 11(c), acquisitions and dispositions of businesses and assets, litigation or claim judgments or settlements, extraordinary items, and specified non-recurring charges or credits) affecting the Company, any subsidiary or affiliate or other business unit, and/or (ii) in response to changes in applicable laws, regulations, accounting principles, or tax rates; provided that no such adjustment shall be authorized or made that would cause any Award to a covered employee (within the meaning of Code Section 162(m)) intended to qualify as “performance-based compensation” under Code Section 162(m) to fail to so qualify.

8. **Non-Employee Director Awards.** Unless the Committee determines to grant Awards to non-employee directors in other forms or amounts, each non-employee director shall automatically receive Formula Awards as provided in Section 8(a), having the terms and conditions provided in Section 8(b).

(a) *Time and Amount of Formula Awards.* Formula Awards shall be made as follows:

(i) *Annual Grants.* As of January 30 of each year, each person then serving as a non-employee director shall be granted 4,800 RSUs, subject to adjustment as provided in Section 11(c). Prior to such grant, the Committee may determine to substitute Restricted Stock for such RSUs.

(ii) *Initial Grants.* Effective as of the date of a person’s initial election or appointment as a non-employee director or change to non-employee director status, such person shall be granted a pro rated portion of the Annual Grant consisting of 400 shares of Restricted Stock for each full or partial month from the date of such director’s election or appointment or change in status to the following January 30 (subject to adjustment as provided in Section 11(c)). Prior to such grant, the Committee may determine to substitute RSUs for such Restricted Stock.

(b) **Terms and Conditions of Formula Awards** . Unless the Committee determines otherwise, Formula Awards of Restricted Stock and/or RSUs granted under Section 8(a) shall be subject to the following terms and conditions and such other terms and conditions as may be determined by the Committee that are not inconsistent therewith.

(i) **No Payment by Director** . A non-employee director shall not be required to make any payment to the Company in consideration of the Restricted Stock or RSU Awards received by such director.

(ii) **General Vesting and Forfeiture** . Each Annual Award shall become vested and non-forfeitable with respect to one-third of the underlying shares on the first anniversary of the date of grant, and an additional one-third of the underlying shares on each subsequent anniversary thereof, provided that the Participant is a director of the Company on each such anniversary date. Each Initial Award shall become vested and non-forfeitable with respect to one-third of the underlying shares on the January 30 following the date of grant, and an additional one-third of the underlying shares on each subsequent January 30, provided that the Participant is a director of the Company on each such date. In the event the Participant ceases to be a director of the Company before the Restricted Stock or RSU Award has fully vested, the unvested portion of the Award shall be forfeited.

(iii) **Accelerated Vesting on Specified Events** . Notwithstanding the vesting schedule set forth in paragraph (ii), all of a Participant's Formula Awards under Section 8(a) shall become fully vested and non-forfeitable (a) upon a Change in Control if the Participant is a director of the Company at the time of such Change in Control, and (b) upon the termination of the Participant's service as a director due to death, disability (as determined by the Committee) or, in the case of RSUs (but not Restricted Stock), retirement (which for this purpose shall mean termination of service after at least five years of service as a non-employee director if the Participant's age plus years of service as a non-employee director equals or exceeds 55).

(iv) **Dividends and Dividend Equivalents** . A Participant shall be entitled to receive, on the dividend payment date, cash dividends on his or her unvested Restricted Stock and Dividend Equivalents for cash dividends on his or her RSUs. In the event the Company pays a dividend in Stock or other property, such dividend (or Dividend Equivalent in the case of RSUs) shall be subject to the same restrictions, risk of forfeiture, and deferral period as the Award with respect to which it was paid.

(v) *Settlement of Award* . All RSUs granted as Formula Awards shall be settled in Stock unless the Committee expressly determines otherwise. Notwithstanding the vesting provisions of an Award, if the Award is subject to Code Section 409A, payment of such Award shall be subject to the requirements of Code Section 409A.

(vi) *Awards Nontransferable* . Restricted Stock and RSUs shall not be transferable by the Participant until such time as the Award has vested and delivery of the shares (or, if the Committee so determines, cash) payable pursuant to the Award has been made.

#### 9. **Certain General Provisions Applicable To Awards** .

(a) *Stand-Alone, Additional, Tandem, and Substitute Awards* . Awards granted under the Plan may, in the Committee's discretion, be granted either alone or in addition to, in tandem with, or in substitution or exchange for, any other Award or any award granted under another plan of the Company or Group or any business entity to be acquired by the Company or Group, or any other right of a Participant to receive payment from the Company or Group, subject to any restrictions imposed by Code Section 409A or 162(m). If two Awards are granted in tandem, a Participant may receive the benefit of one Award only to the extent he or she relinquishes the tandem Award. Awards granted in addition to or in tandem with other Awards or awards may be granted either at the same time as or at a different time from the grant of such other Awards or awards. Subject to any restrictions imposed by Code Section 409A, the Committee may grant substitute Awards in assumption of or in substitution for an outstanding award granted by a company or business acquired by the Company or Group, or with which the Company or Group combines, with an exercise price or grant price per share of Stock below Fair Market Value as it determines appropriate to preserve the economic value of any such outstanding assumed or substituted awards.

(b) *Term of Awards* . The term of each Award shall be for such period as may be determined by the Committee, except that no Option or SAR shall have a term exceeding ten years.

#### (c) *Form and Timing of Payment under Awards* .

(i) *Committee Discretion* . Subject to the terms of the Plan and any applicable Award document and to the extent permitted under Code Section 409A, payments to be made by the Company upon the exercise or settlement of an Award may be made in such forms as the Committee shall determine, including, without limitation, cash, Stock, other Awards or other property, and may be made in a single payment or transfer, in installments, or on a deferred basis. The settlement of any Award may be accelerated, and/or cash may be paid in lieu of Stock in connection with such settlement, in the discretion of the Committee or upon occurrence of one or more specified events, subject to Section 11(j). Subject to Section 11(j), the Committee may require installment or deferred payments (subject to Section 11(e)) or may permit a Participant to elect such payments (including extension of a deferral period) on terms and conditions established by the Committee. Payments may include, without limitation, provisions for the payment or crediting of reasonable interest on installment or deferred payments or the grant or crediting of Dividend Equivalents or other amounts in respect of installment or deferred payments denominated in Stock (subject to the requirements of Code Section 162(m) in the case of Performance Awards intended to qualify as "performance-based compensation" under such Section).

(ii) *Distribution upon Unforeseeable Emergency* . The Committee may provide in the Award document (but not after the date of the Award unless permitted under Code Section 409A) that in the event such Award is vested under the terms of the Award and no longer subject to a substantial risk of forfeiture, such Award shall be distributed to the Participant, upon application of the Participant, if the Participant has had an unforeseeable emergency within the meaning of Code Section 409A, subject to any restrictions on the timing or making of such distribution as may be imposed by the Committee in the Award document or by Section 409A.

(d) *Limitation on Vesting of Certain Awards* . All Option, SAR, Restricted Stock, RSU, and Other Stock-Based Awards to employees shall vest over a minimum period of three years, except that the Committee may provide, at the time of grant or thereafter, for earlier vesting in the event of a Participant's disability or retirement (as such terms are defined by the Committee) or death, or in the event of a Change in Control, sale of a subsidiary or business unit, or other special circumstances. The foregoing notwithstanding, (i) the Committee may provide that Awards as to which either the grant or vesting is based on, among other things, the achievement of one or more performance conditions will vest over a minimum period of one year, with earlier vesting in the circumstances referred to in the preceding sentence; (ii) cash dividends and Dividend Equivalents paid with respect to other Awards need not be subject to minimum vesting requirements; (iii) all shares issued to satisfy a prior obligation to pay cash need not be subject to minimum vesting requirements; and (iv) in addition to the shares referred to in clauses (i), (ii) or (iii), up to an aggregate of 100,000 shares (subject to adjustment as provided in Section 11(c)) may be granted as Bonus Stock, Restricted Stock or RSUs without any minimum vesting requirements. For purposes of this Section 9(d), (i) a performance period that precedes the grant of an Award will be treated as part of the vesting period for such Award if the Participant has been notified promptly after the commencement of the performance period that he or she has the opportunity to earn the Award, and (ii) vesting over a three-year period or one-year period will include periodic vesting over such period if the rate of such vesting is proportional (or less rapid) throughout such period.

(e) *Limitation on Payment of Dividends and Dividend Equivalents* . The Committee may provide for the payment of dividends or Dividend Equivalents with respect to Awards when accrued or on a deferred basis, provided that no dividends or Dividend Equivalents shall be payable on Performance Awards for which the performance goals have not been satisfied.

(f) **Payment of Cash Awards** . Unless the Committee provides otherwise, where an Award is payable in cash, such Award shall be paid by the subsidiary or affiliate that employs the Participant, with the payment obligation guaranteed by the Company.

10. **Change in Control** .

(a) **Committee Authority** . The Committee shall have the authority to determine the treatment of Awards in the event of a Change in Control.

(b) **Definition of “Change in Control”** . A “Change in Control” shall be deemed to have occurred upon:

(i) the acquisition of all or substantially all of the assets of Flushing Bank (the “Bank”) or the Company by any person or entity, or by any persons or entities acting in concert; or

(ii) the occurrence of any event if, immediately following such event, a majority of the members of the Board or the board of directors of the Bank or of any successor corporation or entity shall consist of persons other than Current Members (for these purposes, a “Current Member” shall mean any member of the Board or the board of directors of the Bank as of January 1, 2014 and any successor of a Current Member whose nomination or election has been approved by a majority of the Current Members then on the respective board of directors); or

(iii) the acquisition of the beneficial ownership, directly or indirectly (as provided in Rule 13d-3 under the Exchange Act), of 25% or more of the total combined voting power of all classes of stock of the Bank or the Company by any person or group deemed a person under Section 13(d)(3) of the Exchange Act; or

(iv) consummation of the merger or consolidation of the Bank or the Company with another corporation or entity where stockholders of the Bank or the Company, immediately prior to the merger or consolidation, would not beneficially own, directly or indirectly, immediately after the merger or consolidation, shares entitling such stockholders to 50% or more of the total combined voting power of all classes of stock of the surviving corporation or entity.

11. **General Provisions** .

(a) **Compliance with Legal and Other Requirements** . The Company may, to the extent deemed necessary or advisable by the Committee, postpone the issuance or delivery of Stock or payment of other benefits under any Award until completion of such (i) registration or qualification of such Stock or other required action under federal or state law, rule or regulation, (ii) listing or other required action with respect to any stock exchange or other market upon which the Stock or other securities of the Company are listed or quoted, or (iii) compliance with any other obligation of the Company, as the Committee may consider appropriate, and may require any Participant to make such representations, furnish such information, and comply with or be subject to such other conditions as it may consider appropriate in connection with the issuance or delivery of Stock or payment of other benefits in compliance with applicable laws, rules, regulations, listing requirements, or other obligations. The application of this Section shall not extend the term of any Option or other Award. The Company shall have no obligation to effect any registration or qualification of the Stock under federal or state laws or to compensate the Award holder for any loss caused by the implementation of this Section 11(a).

(b) **Limits on Transferability** . No Award or other right or interest of a Participant under the Plan shall be pledged, hypothecated or otherwise encumbered or subject to any lien, obligation or liability of such Participant to any party (other than the Company or a subsidiary or affiliate thereof), or assigned or transferred by such Participant otherwise than by will or the laws of descent and distribution upon the death of a Participant, and such Awards or rights that may be exercisable shall be exercised during the lifetime of a Participant only by the Participant or his or her guardian or legal representative. Notwithstanding the foregoing, if and to the extent permitted by the Committee (after taking into account applicable securities laws), Awards and other rights (other than ISOs and SARs in tandem therewith) may be transferred by a Participant to one or more transferees during the lifetime of the Participant, and may be exercised by such transferees in accordance with the terms of such Award, subject to any terms and conditions which the Committee may impose in connection with such transfer (including limitations on the permissible categories of transferees). A Beneficiary, transferee, or other person claiming any rights under the Plan from or through a Participant shall be subject to all terms and conditions of the Plan and any applicable Award document, except as otherwise determined by the Committee, and to any additional terms and conditions deemed necessary or appropriate by the Committee which are imposed by the Committee in connection with or as a condition to such transfer.

(c) **Adjustments** . The Committee is authorized to make the following adjustments to outstanding Awards and/or limitations on future Awards:

(i) In the event that any large, special and non-recurring dividend or other distribution (whether in the form of cash or property other than Stock), recapitalization, forward or reverse split, Stock dividend, reorganization, merger, consolidation, spin-off, combination, repurchase, share exchange, sale of substantially all assets, liquidation, dissolution or other change in corporate structure or corporate transaction or event affects the Stock such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of benefits under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (A) the aggregate number and kind of shares of Stock or other property which may be delivered under the Plan, including the number of shares with respect to which ISOs may be granted, (B) the number and kind of shares of Stock or other property by which annual per-person Award limitations are measured under Section 5(b), (C) the number and kind of shares of Stock or other property comprising Formula Awards under Section 8, (D) the number and kind of shares of Stock or other property which may be granted without minimum vesting requirements under Section 9(d), (E) the number and kind of shares of Stock or other property subject to or deliverable in respect of outstanding Awards, and (F) the exercise price, grant price or purchase price relating to any Award.

(ii) Upon (A) any reorganization, merger or consolidation as a result of which the Company is not the surviving corporation (or survives as a wholly-owned subsidiary of another corporation or entity), (B) a sale of substantially all the assets of the Company, (C) the dissolution or liquidation of the Company, or (D) the disposition of a subsidiary, affiliate or business unit of the Company, the Committee may take such action as it in its discretion deems appropriate to (1) accelerate the time when awards vest, may be exercised and/or may be paid (subject to any limitations imposed by Code Section 409A); (2) cash out outstanding Awards through a payment of the in-the-money-value, if any, of the vested portion of such Awards (payable in cash, shares, or other property) at or immediately prior to the date of such event; (3) provide for the assumption of outstanding Options, SARs, and other Awards (as adjusted to reflect the transaction) by surviving, successor or transferee corporations; (4) provide that in lieu of Stock, Participants shall be entitled to receive the consideration they would have received in the transaction in exchange for such Stock (or the fair market value of such consideration in cash); and/or (5) provide that Options and SARs shall be exercisable for a period of at least ten business days from the date of receipt by Participants of a notice from the Company of such proposed event, following the expiration of which period any unexercised Options and SARs shall terminate.

(d) *Tax Provisions* .

(i) *Tax Withholding* . Whenever the value of an Award first becomes includible in an employee's gross income for applicable tax purposes, the Company shall have the right to require the employee to remit to the Company, or make arrangements satisfactory to the Committee regarding payment of, an amount sufficient to satisfy any federal, state or local withholding tax liability prior to the delivery of any certificate for such shares or the time of such income inclusion. Whenever under the Plan payments by the Company are to be made in cash, such payments shall be net of an amount sufficient to satisfy any federal, state or local withholding tax liability.

(ii) *Use of Stock to Satisfy Tax Withholding Obligations* . To the extent permitted by the Committee (in the Award document or otherwise), and subject to any terms and conditions imposed by the Committee, an employee entitled to receive Stock under the Plan may elect to have the employer's minimum statutory withholding obligation for federal, state, and local taxes, including payroll taxes, with respect to such Stock satisfied by having the Company withhold from the shares otherwise deliverable to the employee shares of Stock having a value equal to the amount of such withholding obligation with respect to the Stock or (ii) by delivering to the Company shares of unrestricted Stock. Alternatively, the Committee (in the Award document or subsequently) may require that a portion of the shares of Stock otherwise deliverable be withheld and applied to satisfy the statutory withholding obligations with respect to the Award.



(iii) *Required Consent to and Notification of Code Section 83(b) Election* . No election under Code Section 83(b) (to include in gross income in the year of transfer the amounts specified in Code Section 83(b)) or under a similar provision of the laws of a jurisdiction outside the United States may be made unless expressly permitted by the terms of the Award document or by action of the Committee in writing prior to the making of such election. In any case in which a Participant is permitted to make such an election in connection with an Award, the Participant shall notify the Company of such election within ten days of filing notice of the election with the Internal Revenue Service or other governmental authority, in addition to any filing and notification required pursuant to Code Section 83(b) or other applicable provision.

(iv) *Requirement of Notification Upon Disqualifying Disposition of ISO* . If any Participant makes any disposition of shares of Stock delivered pursuant to the exercise of an ISO in a disqualifying disposition within the meaning of Code Section 421(b), such Participant shall notify the Company of such disposition within ten days thereof.

(v) *Disclaimer of Tax Treatment*. Although the Company may endeavor to qualify an Award for favorable tax treatment (e.g. incentive stock options under Code Section 422) or to avoid adverse tax treatment (e.g. under Code Section 409A), the Company makes no representation that the desired tax treatment will be available and expressly disclaims any liability for the failure to maintain favorable or avoid unfavorable tax treatment. By accepting an Award, a Participant agrees to hold the Company, the Board, the Committee, and their respective delegates harmless for any liability under Code Section 409A.

(e) *Amendment of the Plan and/or Awards* . The Board may terminate the Plan prior to the termination date specified in Section 11(p), and may from time to time amend or suspend the Plan or the Committee's authority to grant Awards under the Plan, and the Committee may amend outstanding Awards, in each case without the consent of stockholders or Participants, subject to the following limitations:

(i) Any amendment to the Plan that would materially increase the number of shares reserved for issuance or for which stockholder approval is required by applicable law or any stock exchange or market on which the Stock is listed or traded shall be subject to approval by the Company's stockholders not later than the earliest annual meeting for which the record date is at or after the date of Board approval of such amendment.

(ii) No amendment or termination of the Plan or any Award may materially and adversely affect the rights of a Participant without the consent of the affected Participant. For the purposes of the preceding sentence, (A) actions that alter the timing of income or other taxation of a Participant will not be deemed material, and (B) adjustments of Awards permitted under Section 11(c) will not be considered amendments of such Awards.

(iii) Without stockholder approval, the Committee will not amend or replace previously granted Options or SARs in a transaction that constitutes a “repricing,” as such term is used in Section 303A.08 of the Listed Company Manual of the New York Stock Exchange.

(iv) The Committee shall have no authority to waive or modify any provision of an Award after the Award has been granted to the extent the waived or modified provision would be mandatory under the Plan for any Award newly granted at the date of the waiver or modification.

Notwithstanding the foregoing provisions of this Section 11(e), the Committee shall have the right, in its sole discretion, to amend the Plan and all outstanding Awards without the consent of stockholders or Participants to the extent the Committee determines that such amendment is necessary or appropriate to comply with Code Section 409A.

Notwithstanding any other provision of the Plan or of any Award, the Committee shall have the right, in its sole discretion, to terminate (or provide for the termination of) the Plan and/or all or selected Awards, and distribute (or provide for the distribution of) the compensation deferred thereunder, within 12 months following the occurrence of a “Change in Control Event” as defined for purposes of Code Section 409A.

(f) **Right of Setoff** . To the extent permitted by applicable law, the Company (or Group) shall have the right to offset amounts payable under this Plan or under any Award against any amounts owed to the Company (or Group) by the Participant. By accepting any Award granted hereunder, a Participant agrees to any deduction or setoff under this Section 11(f).

(g) **Unfunded Status of Awards; Creation of Trusts** . The Plan is intended to constitute an “unfunded” plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant or obligation to deliver Stock or cash pursuant to an Award, nothing contained in the Plan or any Award shall give any such Participant any rights that are greater than those of a general creditor of the Company. The Committee may authorize the creation of trusts and deposit therein cash, Stock, or other property, or make other arrangements to meet the Company’s obligations under the Plan, consistent with the “unfunded” status of the Plan.

(h) **Nonexclusivity of the Plan** . Neither the adoption of the Plan by the Board nor its submission to the stockholders of the Company for approval shall be construed as creating any limitations on the power of the Board or a committee thereof to adopt such other compensatory plans or incentive arrangements as it may deem desirable, including incentive arrangements and awards which do not qualify under Code Section 162(m), and arrangements providing for the issuance of Stock; and such other arrangements may be either applicable generally or only in specific cases.

(i) **Payments in the Event of Forfeitures; Fractional Shares** . Unless otherwise determined by the Committee, in the event of a forfeiture of an Award with respect to which a Participant paid cash consideration, the Participant shall be repaid the amount of such cash consideration or, in the discretion of the Committee, the lesser of such cash consideration or the then value of the Award. No fractional shares of Stock shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, other Awards or other property shall be issued or paid in lieu of such fractional shares or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

(j) **Compliance with Code Section 409A** .

(i) For purposes of this Plan, references to an Award provision or an event (including any authority or right of the Company or a Participant) being “permitted” under Code Section 409A or being subject to this Section 11(j) mean (i) for a 409A Award, that the provision or event will not cause a Participant to be liable for payment of interest or a tax penalty under Code Section 409A, and (ii) for a Non-409A Award, that the provision or event will not cause the Award to be treated as subject to Code Section 409A.

(ii) Notwithstanding any other provision of the Plan, the Company and the Committee shall have no authority to accelerate distributions with respect to 409A Awards in excess of the authority permitted under Code Section 409A.

(iii) Notwithstanding any provision of the Plan or any Award to the contrary, any amounts payable under the Plan on account of termination of employment to an Award holder who is a “specified employee” within the meaning of Code Section 409A which constitute “deferred compensation” within the meaning of Code Section 409A and which are otherwise scheduled to be paid during the first six months following the Award holder’s termination of employment (other than any payments that are permitted under Code Section 409A to be paid within six months following termination of employment of a specified employee) shall be suspended until the six-month anniversary of the Award holder’s termination of employment (or until the Award holder’s death, if earlier), at which time all payments that were suspended shall be paid to the Award holder in a lump sum. The “specified employees” of the Company shall be determined in such manner as may be specified by resolution of the Committee in accordance with Code Section 409A.

(iv) A termination of employment shall not be deemed to have occurred for purposes of any 409A Award under this Plan providing for the payment of any amounts upon or following a termination of employment unless such termination is also a “separation from service” within the meaning of Section 409A.

(k) **Governing Law; Consent to Jurisdiction** . The Plan, any rules and regulations relating to the Plan, and any Award document under the Plan shall be construed in accordance with the laws of the State of New York (without giving effect to principles of conflicts of laws) and applicable provisions of federal law. Any dispute arising out of any award granted under the Plan may be resolved in any state or federal court located within the State of Delaware. Any Award granted under the Plan is granted on condition that the Award holder accepts such venue and submits to the personal jurisdiction of any such court.

(l) **Awards to Participants Outside the United States** . The Committee may, in its sole discretion, modify the terms of any Award under the Plan made to or held by a Participant who is then resident or primarily employed outside of the United States in any manner deemed by the Committee to be necessary or appropriate in order that such Award shall conform to laws, regulations, and customs of the country in which the Participant is then resident or primarily employed, or so that the value and other benefits of the Award to the Participant, as affected by foreign tax laws and other restrictions applicable as a result of the Participant's residence or employment abroad, shall be comparable to the value of such an Award to a Participant who is resident or primarily employed in the United States.

(m) **Limitation on Rights Conferred under Plan** . Neither the Plan nor any action taken hereunder shall be construed as (i) giving any Participant the right to continue as a Participant or in the employ or service of the Company or Group, (ii) interfering in any way with the right of the Company or Group to terminate any Participant's employment or service at any time (subject to the terms and provisions of any separate written agreements), (iii) giving any person a claim to be granted any Award under the Plan, or (iv) conferring on a Participant any of the rights of a stockholder of the Company unless and until shares of Stock are duly issued or transferred to the Participant in accordance with the terms of an Award. Determinations by the Committee under the Plan relating to the form, amount, and terms and conditions of Awards need not be uniform, and may be made selectively among persons who receive or are eligible to receive Awards under the Plan, whether or not such persons are similarly situated. Except as expressly provided in the Plan or an Award document, neither the Plan nor any Award document shall confer on any person other than the Company (or Group) and the Participant any rights or remedies thereunder.

(n) **Invalidity of Provision** . If any provision of the Plan or an Award document is finally held to be invalid, illegal, or unenforceable, the Committee shall have the right to modify the terms of affected Awards in such manner as it deems equitable in order to prevent unintended enrichment or dilution of benefits in light of the invalid, illegal or unenforceable provision.

(o) **Plan Effective Date; Termination of Preexisting Plans** . The Plan shall become effective on May 20, 2014 if, and only if, the stockholders of the Company have approved it at the annual meeting held on such date or any adjournment thereof. Upon such approval of the Plan by the stockholders of the Company, no further awards shall be granted under the Company's 2005 Omnibus Incentive Plan, 1996 Stock Option Incentive Plan, and 1996 Restricted Stock Incentive Plan, but any outstanding awards under such plans shall continue in accordance with their terms.

(p) **Plan Termination Date** . No Awards shall be granted under the Plan after the Company’s annual meeting of stockholders held in 2024, but outstanding Awards granted prior to such date shall continue in accordance with their terms. No Award intended to qualify as “performance-based compensation” within the meaning of Code Section 162(m) (other than Options and SARs) shall be granted after the Company’s annual meeting held in 2019 unless the material terms of the performance goals have been reapproved by the Company’s stockholders within the five years prior to such grant.

**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John R. Buran, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Flushing Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2014

By: /s/John R. Buran  
John R. Buran  
President and Chief Executive Officer

**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David Fry, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Flushing Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2014

By: /s/David Fry  
David Fry  
Senior Executive Vice President, Treasurer and Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Flushing Financial Corporation (the "Corporation") on Form 10-Q for the period ended June 30, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John R. Buran, Chief Executive Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

By: /s/John R. Buran  
John R. Buran  
Chief Executive Officer  
August 11, 2014



**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Flushing Financial Corporation (the "Corporation") on Form 10-Q for the period ended June 30, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David Fry, Chief Financial Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

By: /s/David Fry  
David Fry  
Chief Financial Officer  
August 11, 2014