FLOW INTERNATIONAL CORP
Form 11-K
June 28, 2010

Table of Contents

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 11-K

þ **ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2009

o **TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________
Commission file number 001-34443

FLOW INTERNATIONAL CORPORATION
VOLUNTARY PENSION AND SALARY DEFERRAL PLAN
FLOW INTERNATIONAL CORPORATION
23500 64th Avenue South
Kent, Washington 98032

Flow International Corporation Voluntary Pension and Salary Deferral Plan
Contents

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Participants and Advisory Committee
Flow International Corporation Voluntary
Pension and Salary Deferral Plan
Kent, Washington

We have audited the accompanying statements of net assets available for benefits of the Flow International Corporation Voluntary Pension and Salary Deferral Plan (the Plan) as of December 31, 2009 and 2008, and the related statement of changes in net assets available for benefits for the year ended December 31, 2009. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Flow International Corporation Voluntary Pension and Salary Deferral Plan as of December 31, 2009 and 2008, and the changes in its net assets available for benefits for the year ended December 31, 2009, in conformity with accounting principles generally accepted in the United States.

Our 2009 audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedule H, line 4i Schedule of Assets (Held at End of Year) as of December 31, 2009, is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplementary information is the responsibility of the Plan s management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/S/ PETERSON SULLIVAN LLP
Seattle, Washington
June 28, 2010

Table of Contents

Flow International Corporation Voluntary Pension and Salary Deferral Plan
Statements of Net Assets Available for Benefits

December 31,	**2009**	2008
Assets		
Investments, at fair value		
Mutual funds	**$ 24,450,616**	$ 18,779,733
Collective trust fund	**4,600,915**	5,185,334
Flow International Corporation unitized common stock fund	**1,456,255**	806,871
Participant loans	**719,103**	785,099
Total assets	**31,226,889**	25,557,037
Liabilities		
Excess contributions payable to participants	**(48,470)**	
Other	**(156)**	(780)
Net assets available for benefits, at fair value	**$ 31,178,263**	$ 25,556,257
Adjustment from fair value to contract value for interest in collective trust fund relating to fully benefit-responsive investment contract	**(75,255)**	174,993
Net assets available for benefits	**$ 31,103,008**	$ 25,731,250

See accompanying notes to the financial statements.

Table of Contents

Flow International Corporation Voluntary
Pension and Salary Deferral Plan
Statement of Changes in Net Assets Available for Benefits

Year ended December 31,	**2009**
Additions	
Investment income:	
Net appreciation in fair value of investments	**$ 5,641,384**
Interest & dividends	**452,769**
	6,094,153
Contributions:	
Employer	**201,162**
Participants	**1,638,110**
Rollovers from other qualified retirement plans	**13,110**
Net additions	**7,946,535**
Deductions	
Benefits paid to participants	**2,540,780**
Administrative expenses	**33,997**
Total deductions	**2,574,777**
Net increase	**5,371,758**
Net assets available for benefits, beginning of year	**25,731,250**
Net assets available for benefits, end of year	**$ 31,103,008**

See accompanying notes to the financial statements.

5

Table of Contents

Flow International Corporation Voluntary
Pension and Salary Deferral Plan
Notes to Financial Statements

1. Plan Description

The following description of the Flow International Corporation Voluntary Pension and Salary Deferral Plan (the Plan) provides only general information. Participants should refer to the Plan document for a more complete description of the Plan s provisions.

The Plan is a contributory defined contribution plan for the benefit of eligible employees of Flow International Corporation and its subsidiaries (collectively the Company). The Plan was established on October 1, 1986 and is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Trustee and Administrator of the Plan

The Plan is administered by an Advisory Committee appointed by the Board of Directors of the Company. Contributions to the Plan and net Plan earnings thereon are held by the Plan trustee under terms of a trust agreement with Wilmington Trust Retirement and Institutional Services Company (Wilmington). The funds must be used for the exclusive benefit of Plan participants and their beneficiaries.

Eligibility

Employees of the Company that are not members of a collective bargaining unit are eligible to participant in the Plan. Employees who are members of a collective bargaining unit are eligible to participate in the Plan only if the collective bargaining agreement provides for eligibility in the Plan.

Employees are eligible for participation in the Plan upon the first quarterly open enrollment period after commencement of employment and are eligible for the Company match, if any, one year following that date.

Contributions

For all eligible employees hired after January 1, 2008, enrollment in the Plan is automatic at 6% unless a written form is received opting out of enrollment or modifying the enrollment %. All eligible employees may elect to contribute up to 40% of pretax annual compensation (up to 15% for highly compensated employees), as defined in the Plan, subject to certain limitations under the Internal Revenue Code (IRC). The Plan also allows catch up contributions for participants age 50 and over and for transfers into the Plan from other qualified retirement plans (Rollovers).

The Company may make matching contributions or other additional discretionary contributions to the Plan in amounts determined by the Advisory Committee.

Table of Contents

Flow International Corporation Voluntary
Pension and Salary Deferral Plan
Notes to Financial Statements

Participant Accounts

Each participant s account is credited with the participant s contribution and allocations of (a) the Company s contribution, (b) Plan earnings, and (c) administrative expenses. Allocations are based on participant contributions or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant s vested account.

Voting Rights

Each participant invested in the Company s unitized common stock fund (Flow Fund) is entitled to exercise voting rights and tender decisions attributable to the shares allocated to his or her account. The Advisory Committee is responsible for tabulating and complying with the voting or tendering instructions it receives from participants. If the participant does not instruct the Advisory Committee with regard to a voting or tendering decision, the shares are voted or tendered as instructed by the Flow Fund.

Vesting

Participants are immediately vested in their voluntary contributions plus actual earnings thereon. Company contributions and earnings thereon generally vest with individual participants based upon years of service with the Company. Participants become 100% vested ratably over five years of service or if the participant reaches the normal retirement age of 65, dies, or becomes disabled while in the service of the Company.

Participant Loans

Participants may borrow, upon written application, any amount provided that the aggregate amount of all outstanding loans to the participant from the Plan and from any other qualified plan maintained by the employer, including accrued interest thereon, shall not exceed the lesser of $50,000 or 50% of the participants vested account balance. A participant s vested account balance does not include the value of assets that are directly invested in the Flow Fund. Loan terms shall not exceed five years, except for the purchase of a primary residence, in which case the maximum is ten years.

The loans are collateralized by the vested balance in the participant s account. The rate charged on participant loans is the prime rate (3.25% at both December 31, 2009 and 2008) plus 1%, as of the first day of the quarter in which the loan is approved. Interest rates on outstanding participant loans range from 4.25% to 9.50% at December 31, 2009. Principal and interest is paid ratably not less than monthly.

Table of Contents

**Flow International Corporation Voluntary
Pension and Salary Deferral Plan
Notes to Financial Statements**

Payment of Benefits

Vested benefits are immediately payable upon the retirement, death or disability of a Plan participant. Vested benefits are also payable upon the request of a Plan participant at termination of employment with the Company or after having attained the age of 59$^1/2$ while in the service of the Company. The Plan allows hardship withdrawals to eligible participants. The Advisory Committee has the right to distribute participant accounts upon termination of service for participants with balances not exceeding $1,000. On termination of service due to death, disability, retirement or other reasons, a participant will receive a lump-sum amount equal to the value of the participant s vested interest in his or her account.

Forfeitures

Unvested forfeited investment balances can be used to reduce future employer contributions. Forfeitures were not allocated to participants in 2009. Forfeitures pending utilization were $21,103 and $32,154 at December 31, 2009 and December 31, 2008, respectively.

Administrative Expenses

The Plan provides that administrative expenses may be paid by either the Plan or the Company.

Table of Contents

Flow International Corporation Voluntary
Pension and Salary Deferral Plan
Notes to Financial Statements

2. Summary of Significant Accounting Policies

Basis of Preparation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Advisory Committee to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Fair Value Measurements

The Plan performs fair value measurements in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*. Refer to Note 4 for the fair value measurement disclosures associated with the Plan s investments.

ASC 820 applies to certain accounting standards that require or permit fair value measurements and defines fair value, establishes a consistent framework for measuring fair value and expands disclosures for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

An asset or liability s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

Mutual Funds

These investments are public investment vehicles using the Net Asset Value (NAV) provided by the administrators of the funds. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is a quoted price in an active market and classified within level 1 of the valuation hierarchy.

Flow Fund

Flow International Corporation common stock is valued at the closing price reported on the National Association of Securities Dealers Automated Quotations (NASDAQ) stock exchange and is classified within level 1 of the valuation hierarchy.

Collective Trust Fund

This investment is a public vehicle valued using the NAV provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is classified as level 2 of the valuation hierarchy because the NAV s unit price is quoted on a private market that is not active; however, the unit price is based on underlying investments which are traded on an active market.

Loans to Participants

Loans to plan participants are valued at cost plus accrued interest, which approximates fair value and are classified within level 3 of the valuation hierarchy.

Risks and Uncertainties

The Plan allows participants to direct contributions into choices that include mutual funds, a collective trust fund that has an underlying investment in a benefit-responsive insurance contract with MetLife Insurance Company (MetLife) and the Flow Fund. The underlying investment securities within these investment vehicles are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain underlying investment securities and the level of uncertainty related to changes in the value of the funds, it is reasonably possible that changes in risks in the near term would materially affect participants account balances and the amounts reported in the statements of net assets available for benefits. Refer to the Company s Forms 10-K and 10-Q filings regarding risks associated with Flow International Corporation s common stock.

Table of Contents

Flow International Corporation Voluntary
Pension and Salary Deferral Plan
Notes to Financial Statements

Investment Valuation and Income Recognition

Investments are valued at their fair value. Mutual funds are stated at fair value based on quoted market prices, which represent the net asset values of shares held by the Plan at year-end. Flow International Corporation common stock is valued at quoted market prices. Participant loans are valued at their outstanding balances, which approximates fair value.

The collective trust fund s estimated fair value and contract value is based on the underlying benefit-responsive investment contract with MetLife Insurance Company, as reported by the fund s trustee. As described in ASC 946*, Financial Services-Investment Companies* and ASC 962, *Plan Accounting Defined Contribution Pension Plans* (formerly Financial Accounting Standards Board Staff Position, FSP Nos. AAG INV-1 and AICPA Statement of Position, SOP 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans)*, investment contracts held by a defined contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the plan. The Plan invests in investment contracts through a collective trust fund. As required by ASC 962, the Statements of Net Assets Available for Benefits present the adjustments of the investment contracts from fair value to contract value. The Statement of Changes in Net Assets Available for Benefits is prepared on a contract value basis.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Benefits Paid to Participants

Benefits are recorded when paid.

Table of Contents

Flow International Corporation Voluntary
Pension and Salary Deferral Plan
Notes to Financial Statements

Recently Issued Accounting Policies

In January 2010, the FASB issued updated guidance to improve disclosures regarding fair value measurements. This update requires entities to (i) disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers and (ii) present separately (i.e., on a gross basis rather than as one net number), information about purchases, sales, issuances, and settlements in the roll forward of changes in Level 3 fair value measurements. The update requires fair value disclosures by class of assets and liabilities rather than by major category or line item in the statement of financial position. Disclosures regarding the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for assets and liabilities in both Level 2 and Level 3 are also required. For all portions of the update except the gross presentation of activity in the Level 3 roll forward, this standard is effective for interim and annual reporting periods beginning after December 15, 2009. For the gross presentation of activity in the Level 3 roll forward, this guidance is effective for fiscal years beginning after December 15, 2010. As of December 31, 2009, the Plan Sponsor does not believe this guidance will impact the financial statement amounts; however, additional disclosures may be required about the inputs used to develop the measurement and the effect of certain of the measurements on changes in net assets for the period.

Flow International Corporation Voluntary
Pension and Salary Deferral Plan
Notes to Financial Statements

3. Investments

Upon enrollment in the Plan, participants may direct their investments among 15 mutual funds, one collective trust fund, and the Flow Fund.

Flow Fund

Because investments in the Flow Fund are not diversified, this investment may present higher than average volatility. Therefore, the Plan states that a participant is limited to investing no more than 25% of the balance in his or her account in the Flow Fund.

Collective Trust Fund

The MetLife Stable Value Fund (collective trust fund) is an AA rated fund that invests primarily in a benefit responsive investment contract that provides for a guaranteed rate of return established each quarter. In determining the net assets available for benefits, the collective trust fund is included in the accompanying financial statements at contract value, which represents contributions made under the contract plus earnings, less withdrawals and administrative expenses. As provided in the ASC 962, an investment contract is generally valued at contract value, rather than at fair value, to the extent it is fully benefit responsive. The crediting interest rate averaged 2.86% and yielded 8.33% during 2009 and averaged 4.22% and yielded -0.16% during 2008. The crediting rate is based on a formula agreed upon with the issuer, with no minimum crediting rate. The collective trust fund is fully benefit-responsive and participants will receive the principal and accrued earnings credited to their accounts on withdrawal for allowed events. These events include transfers to other Plan investment options, and payments because of retirement, termination of employment, disability, death and in-service withdrawals as permitted by the Plan. Certain events, such as the premature termination of the contract by the Plan or the termination of the Plan, would limit the Plan s ability to transact at contract value with MetLife. The Plan administrator believes the occurrence of such events that would also limit the Plan s ability to transact at contract value with the Plan participants is not probable.

Table of Contents

Flow International Corporation Voluntary
Pension and Salary Deferral Plan
Notes to Financial Statements

All Plan investments are held in trust at Wilmington. The following table presents investments that represent 5% or more of the Plan s net assets available for benefits.

December 31,	**2009**	2008
Mutual Funds:		
Rainier Small/Midcap Equity Fund	**$ 3,469,097**	**$ 2,662,095**
American Funds The Growth Fund of America Class A	**4,112,944**	**3,253,992**
Oppenheimer Global Fund Class A	**2,342,764**	**1,756,965**
Vanguard 500 Index Fund Signal	**2,201,657**	**1,699,161**
American Funds Europacific Growth Fund Class A	**3,780,836**	**2,732,921**
PIMCO Total Return Fund Class A	**3,059,776**	**2,480,615**
Van Kampen Growth & Income Fund Class A	**1,570,712**	**1,428,779**
Collective Trust Fund:		
MetLife Stable Value Fund, at contract value	**4,525,660**	**5,360,327**

The Plan s investments, including gains and losses on investments bought and sold, as well as held during the year, appreciated in value as follows:

Year Ended December 31,	**2009**
Investments at fair value	
Mutual Funds	**$ 5,080,840**
Flow International Corporation Unitized Common Stock Fund	**416,611**
Collective Trust Fund	**143,933**
	$ 5,641,384

14

Table of Contents

Flow International Corporation Voluntary
Pension and Salary Deferral Plan
Notes to Financial Statements

4. Fair Value Measurement

The following table presents information about the Plan s assets that have been measured at fair value on a recurring basis as of December 31, 2009 and 2008, and indicates the classification by level of input within the fair value hierarchy defined by ASC 820 utilized to determine such fair value:

	Levels of Fair Value Measurements at December 31, 2009:			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value at December 31, 2009
Investments:				
Mutual Funds				
Blend funds	$ 7,952,506	$	$	$ 7,952,506
Bond funds	3,059,776			3,059,776
Growth funds	9,924,805			9,924,805
Value funds	3,113,508			3,113,508
Other funds	400,021			400,021
Flow Fund	1,456,255			1,456,255
Collective Trust Fund		4,600,915		4,600,915
Participant Loans			719,103	719,103
	$ 25,906,871	$ 4,600,915	$ 719,103	$ 31,226,889

Table of Contents

Flow International Corporation Voluntary Pension and Salary Deferral Plan
Notes to Financial Statements

	Levels of Fair Value Measurements at December 31, 2008:			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value at December 31, 2008
Investments:				
Mutual Funds				
Blend funds	$ 5,842,327	$	$	$ 5,842,327
Bond funds	2,480,615			2,480,615
Growth funds	7,673,052			7,673,052
Value funds	2,641,861			2,641,861
Other funds	141,878			141,878
Flow Fund	806,871			806,871
Collective Trust Fund		5,185,334		5,185,334
Participant Loans			785,099	785,099
	$ 19,586,604	$ 5,185,334	$ 785,099	$ 25,557,037

The table below sets forth a summary of changes in the fair value of the Plan s level 3 assets for the years ended December 31, 2009 and 2008.

Description	**Participant Loans 2009**	**Participant Loans 2008**
Beginning balance	$ 785,099	$ 459,363
Realized gains / (losses)		
Unrealized gains / (losses) relating to instruments still held at the reporting date		
Purchases, sales, issuances and settlements, net	(65,996)	325,736
Ending balance	$ 719,103	$ 785,099

16

Table of Contents

Flow International Corporation Voluntary
Pension and Salary Deferral Plan
Notes to Financial Statements

5. Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become 100% vested in their accounts. Any unallocated assets of the Plan shall be allocated to participant accounts and distributed in such a manner as the Company may determine.

6. Federal Income Taxes

The Plan obtained its latest determination letter dated May 20, 2003, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Plan has been amended since receiving the determination letter. However, the Plan Administrator and the Plan s tax counsel believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the IRC.

7. Related-Party Transactions

The Plan invests in shares of common stock of the Company. The Company is the Plan sponsor; therefore, these transactions qualify as party-in-interest transactions. These transactions are covered by an exemption from the prohibited transaction provisions of ERISA and the IRC. As of December 31, 2009 and 2008, the Plan held 475,310 and 337,123 shares of common stock in the Company (employer securities) with a fair value of $1,456,255 and $806,871, respectively. During the year ended December 31, 2009, the Plan purchased shares of common stock of the Company at a cost of $707,665 and sold shares of common stock of the Company for proceeds of $474,892.

Table of Contents

Supplemental Schedule

Table of Contents

Flow International Corporation Voluntary
Pension and Salary Deferral Plan
Schedule H, Line 4i Schedule of Assets (Held at End of Year)
EIN: 91-1104842

Plan Number: 002

December 31, 2009

(a)	(b) Identity of Issue, Borrower, Lessor or Similar Party	(c) Description of Investment, including Maturity Date, Rate of Interest, Collateral, Par or Maturity Value	(d) Cost	(e) Current Value
	Mutual Funds:			
	American Funds The Growth Fund of America Class A	Mutual Fund	**	$ 4,112,944
	American Funds Europacific Growth Fund Class A	Mutual Fund	**	3,780,836
	Rainier Small/Mid Cap Equity Fund	Mutual Fund	**	3,469,096
	PIMCO Total Return Fund Class A	Mutual Fund	**	3,059,776
	Oppenheimer Global Fund Class A	Mutual Fund	**	2,342,764
	Vanguard 500 Index Fund Signal	Mutual Fund	**	2,201,657
	Van Kampen Growth & Income Fund Class A	Mutual Fund	**	1,570,712
	Davis New York Venture Fund Class A	Mutual Fund	**	1,523,006
	Allianz NFJ Small Cap Value Fund Class A	Mutual Fund	**	1,142,094
	Vanguard Extended Market Index Fund Signal	Mutual Fund	**	447,008
	American Funds Washington Mutual Investors Fund Class A	Mutual Fund	**	400,702
	T. Rowe Price Retirement 2030 ADV	Mutual Fund	**	114,267
	T. Rowe Price Retirement 2010 ADV	Mutual Fund	**	105,589
	T. Rowe Price Retirement 2020 ADV	Mutual Fund	**	97,236
	T. Rowe Price Retirement 2040 ADV	Mutual Fund	**	82,929
	Total Mutual Funds			$ 24,450,616

** Cost information is not required for participant-directed investments.

Table of Contents

[Type text]

EIN: 91-1104842
Plan Number: 002

December 31, 2009

(a)	(b) Identity of Issue, Borrower, Lessor or Similar Party	(c) Description of Investment, including Maturity Date, Rate of Interest, Collateral, Par or Maturity Value	(d) Cost	(e) Current Value
	Collective Trust Fund:			
	MetLife Stable Value Fund (Contract Value)	Collective Trust Fund	**	$ 4,525,660
	Flow International Corporation Unitized Common Stock Fund:			
*	Flow International Corporation Common Stock	Common Stock Fund	**	1,456,255
*	Participant loans	Maturing at various dates through December 2019 Interest rates ranging from 4.25% to 9.5%	0	719,103
	Total investments			$ 31,151,634

** Cost information is not required for participant-directed investments.

Table of Contents

Exhibit Index

Number	Title
23.1	Consent of Peterson Sullivan, LLP, Independent Registered Public Accounting Firm

Signatures

Pursuant to the requirements of the Securities and Exchange Act of 1934, the members of the Plan Advisory Committee have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

FLOW INTERNATIONAL CORPORATION
VOLUNTARY PENSION AND SALARY DEFERRAL PLAN

Date: June 28, 2010

/s/ John S. Leness
John S. Leness
General Counsel/Secretary

FACE="Times New Roman" SIZE="2">*

All Directors and Executive Officers (including

Named Executive Officers) as a Group (18 persons)

2,858,996 13.34%

Footnotes on following page.

10

Table of Contents

(1) The information reflected in this column is based upon information furnished to us by the persons named above and the information contained in the records of our stock transfer agent. The nature of beneficial ownership for shares shown in this column, unless otherwise noted, represents sole voting and investment power and includes shares of common stock issuable upon the exercise of options that are exercisable currently or within 60 days of May 11, 2009.

(2) With respect to the directors and executive officers, includes shares held directly, in retirement accounts, in a fiduciary capacity or by certain affiliated entities or members of the named individuals families, with respect to which shares the named individuals and group may be deemed to have sole or shared voting and/or dispositive powers. Also reflects the holdings of shares of certain of the executive officers through their accounts under our 401(k) and ESOP. In addition, includes shares subject to options which are currently exercisable or which will become exercisable within 60 days of May 11, 2009, as follows: Ms. Francis 45,264, Mr. Koopmans 55,464, Mr. Wells 57,864, Mr. Hausmann 62,664, Mr. Gasior 250,000, Mr. Schudt 62.664, Mr. Wherfel 53,664, Mr. Brennan 131,667, Mr. Cloutier 114,000, Mr. O Shaughnessy 173,000, Ms. Calabrese 100,001 and all directors and executive officers as a group 1,477,128 shares.

(3) Amount of shares owned and reported on the most recent Schedule 13G filings with the SEC, reporting ownership as of December 31, 2008.

(4) Mr. Cloutier s holdings include 110,000 shares of Common Stock subject to pledge.

Section 16(a) Beneficial Ownership Reporting Compliance

The Company s executive officers and directors, and beneficial owners of greater than 10% of the outstanding shares of the Company s common stock, are required to file reports with the Securities and Exchange Commission disclosing beneficial ownership and changes in beneficial ownership of the Company s common stock. Securities and Exchange Commission rules require disclosure if an executive officer, director or 10% beneficial owner fails to file these reports on a timely basis. Based on the Company s review of ownership reports required to be filed for the year ended December 31, 2008, no executive officer, director or 10% beneficial owner of shares of the Company s common stock failed to file any required ownership report on a timely basis, except that Mr. Donald Stelter, Executive Vice President of the General Services Division of the Bank, filed a Form 4 covering involuntary sales transactions that occurred on a single day after the two-business day filing deadline.

CODE OF ETHICS

The Company has adopted a Code of Ethics for Senior Financial Officers that applies to the Company s principal executive officer, principal financial officer, principal accounting officer, and persons performing similar functions. A copy of the Company s Code of Ethics was previously filed as Exhibit 14 to the Company s Annual Report on Form 10-K for the year ended December 31, 2005. The Company has also adopted a Code of Business Conduct, pursuant to the listing standards of the NASDAQ Stock Market, that applies generally to the Company s directors, officers, and employees. The Code of Ethics for Senior Financial Officers and the Code of Business Conduct have been reviewed annually by the Board of Directors since the time of their adoption and the reviews have not resulted in any revisions.

BOARD COMMITTEE REPORTS, POLICIES AND PROCEDURES

Meetings and Committees of the Board of Directors

Board of Directors and Committees. The business of the Company is conducted at regular and special meetings of the Board of Directors and its committees. In addition, the independent members of the Board of Directors, as defined in Rule 5605(a)(2) of the listing standards of the NASDAQ Stock Market, meet in executive sessions. The standing committees of the Board of Directors of the Company are the Executive, Audit, Corporate Governance and Nominating, and Human Resources Committees. During the year ended December 31, 2008, the Board of Directors of the Company held 12 regular and two special meetings. No member of the Board of Directors or any Board committee attended less than 75% of these meetings.

Executive Committee. The Executive Committee is authorized to act with the same authority as the Board of Directors between meetings of the Board of Directors, subject to certain limitations contained in the Bylaws of the Company. Messrs. Gasior (Chairman), Hausmann, Koopmans and Schudt serve as members of the Executive Committee of both the Company and the Bank. During the year ended December 31, 2008, the Executive Committee of the Company met concurrently with the Executive and Asset Quality Committees of the Bank at four meetings.

Table of Contents

Audit Committee. The Board of Directors has adopted a written charter for the Audit Committee, which is attached as Appendix A to this Proxy Statement. As more fully described in the Audit Committee Charter, the Audit Committee reviews the records and affairs of the Company to determine its financial condition, reviews with management and the Company s independent registered public accounting firm the systems of internal control over financial reporting, and monitors adherence in accounting and financial reporting to accounting principles generally accepted in the United States. Messrs. Hausmann (Chairman), Wells and Koopmans serve as members of the Audit Committee and each is an independent director as defined in Rule 5605(a)(2) of the listing standards of the NASDAQ Stock Market and Rule 10A-3 of the Securities and Exchange Commission. The Board of Directors has determined that Messrs. Hausmann and Koopmans both qualify as an audit committee financial expert as currently defined in the regulations of the Securities and Exchange Commission. During the year ended December 31, 2008, the Audit Committee of the Company met concurrently with the Audit Committee of the Bank at six meetings.

Corporate Governance and Nominating Committee. The Board of Directors has adopted a written charter for the Corporate Governance and Nominating Committee, which is attached as Appendix B to this Proxy Statement. The Corporate Governance and Nominating Committee consists, at any point in time, of all of the directors of the Company who qualify as independent in accordance with the listing standards of the NASDAQ Stock Market, except that no director may serve on the Corporate Governance and Nominating Committee at any meeting at which he or she has been or is seeking to be proposed as a nominee. The full Board of Directors, other than Mr. Gasior, serves as the Corporate Governance and Nominating Committee to fill vacancies on the Board. At December 31, 2008, Messrs. Wherfel (Chairman), Hausmann and Schudt qualified for membership on the Corporate Governance and Nominating Committee with respect to matters involving the 2009 Annual Meeting. During the year ended December 31, 2008, the Corporate Governance and Nominating Committee of the Company met once.

The Corporate Governance and Nominating Committee identifies nominees by first evaluating the current members of the Board of Directors who are willing to continue in service. Current members of the Board of Directors with skills and experience that are relevant to the Company s business and who are willing to continue in service are considered for re-nomination, balancing the value of continuity of service by existing members of the Board of Directors with that of obtaining a new perspective. If vacancies on the Board of Directors arise, or if a current director is not nominated for re-election, the Corporate Governance and Nominating Committee will determine the skills and experience desired of a new nominee, solicit suggestions for director candidates from all members of the Board of Directors, and may engage in other search activities. During the year ended December 31, 2008, the Company did not pay a fee to any third party to identify or evaluate, or assist in identifying or evaluating, potential nominees for director.

Candidates for a directorship should possess specific attributes, including integrity and a devotion to ethical behavior, a primary interest in the well-being of the Company, a capacity for independent judgment, good business acumen, the capacity to protect confidential information, an ability to work as a member of a team and a willingness to evaluate other opinions or points of view. In addition to examining a candidate s qualifications in light of the above attributes, the Corporate Governance and Nominating Committee would also consider the overall character of the candidate and any existing or potential conflict of interest, the candidate s willingness to serve and ability to devote the time and effort required, the candidate s record of leadership, and the ability to develop business for the Company and its subsidiaries.

The Company s Bylaws also establish specific qualifications for directors, and provide that no person who is more than 75 years of age shall be eligible for election to the Board of Directors, and that each director must be a stockholder of the Company.

The Corporate Governance and Nominating Committee may consider qualified candidates for director suggested by the stockholders of the Company. Stockholders may suggest a qualified candidate for director by writing to BankFinancial Corporation at 15W060 North Frontage Road, Burr Ridge, Illinois 60527, Attention: James J. Brennan, Secretary, and providing the information described above concerning the suggested candidate. A suggestion made to the Company s Secretary concerning a potential candidate for a directorship will not constitute a nomination of the suggested candidate for election as a director. All nominations of candidates for election as a director must strictly comply with the applicable requirements and time limits summarized below in Advance Notice of Business to be Conducted at an Annual Meeting.

Table of Contents

Human Resources Committee. The Board of Directors has adopted a written charter for the Human Resources Committee, which is attached as Appendix C to this Proxy Statement. The Human Resources Committee reviews and approves executive compensation, benefit plans, incentive compensation plans and employment agreements, and makes recommendations with respect to those matters to the Board of Directors. Messrs. Schudt (Chairman), Hausmann, Koopmans, Wells and Wherfel and Ms. Francis serve as members of the Human Resources Committee. Each member of the Human Resources Committee is independent as defined in Rule 5605(a)(2) of the listing standards of the NASDAQ Stock Market. The Human Resources Committee of the Company met five times during the year ended December 31, 2008. Because the Human Resources Committee consists of all Directors other than Mr. Gasior, four of these meetings consisted of executive sessions held outside the presence of management at the conclusion of regular or special Board of Director s meetings to discuss compensation, performance and employment related matters.

AUDIT COMMITTEE REPORT

In accordance with the applicable rules of the Securities and Exchange Commission, the Audit Committee has prepared the following report for inclusion in this Proxy Statement:

As part of its ongoing activities, the Audit Committee has:

- Reviewed and discussed with management the Company s audited consolidated financial statements for the year ended December 31, 2008;

- Discussed with the Company s independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended; and

- Received the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board regarding the firm s communications with the Audit Committee concerning independence, and has discussed with the independent registered public accounting firm their independence.

Based on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008 for filing with the Securities and Exchange Commission.

This report has been provided and is respectfully submitted by the Audit Committee:

John M. Hausmann, C.P.A.	Terry R. Wells	Sherwin R. Koopmans

Compensation Committee Interlocks and Insider Participation

Mr. F. Morgan Gasior is the only director of the Company and the Bank who is also an executive officer of the Company and/or the Bank. Mr. Gasior does not participate in the decisions of the Boards of Directors of the Company or the Bank or their respective Human Resources Committees concerning his compensation. No executive officer of the Company or the Bank has served on the Board of Directors or on the compensation committee of any other entity that had an executive officer serving on the Company s Board of Directors or Human Resources Committee.

COMPENSATION DISCUSSION AND ANALYSIS

Introduction

This Compensation Discussion and Analysis describes the Company s compensation philosophy and policies for 2008 as applicable to the executive officers named in the Summary Compensation Table. This section explains the structure and rationale associated with each material element of the named executive officers compensation, and

Table of Contents

it provides context for the more detailed disclosure tables and specific compensation amounts provided in the following section. It is important to note that the Company and the Bank share an executive management team, and except for awards made pursuant to the Company s 2006 Equity Incentive Plan (the 2006 EIP), the members of the executive management team are compensated by the Bank rather than the Company and the Company reimburses the Bank for their services to the Company through inter-company expense allocations. The compensation packages of the named executive officers are determined and approved by the Human Resources Committee based upon each officer s performance and roles for both the Company and the Bank.

Role of the Human Resources Committee of the Board of Directors

Pursuant to its Charter, the Human Resources Committee is directly responsible for the execution of the Board of Directors responsibilities with respect to compensation, performance evaluation and succession planning for the Company s Chief Executive Officer and other named executive officers. The Human Resources Committee is also responsible for the submission of an annual report on executive compensation to the Board of Directors for inclusion in the Company s annual Proxy Statement. During 2008, the Human Resources Committee was comprised of Messrs. Schudt (Chairman), Hausmann, Koopmans, Wells and Wherfel and Ms. Francis, each of whom is expected to serve on the committee through June 30, 2009. Each of the members is considered independent according to the listing standards of the NASDAQ Stock Market, an outside director pursuant to Section 162(m) of the Internal Revenue Code, and a non-employee director under Section 16 of the Securities Exchange Act of 1934.

Compensation Philosophy and Objectives

The overall objective of the Company s compensation program is to align executive officer compensation with the success of meeting strategic, financial and management objectives and goals. The programs are designed to create meaningful and appropriate incentives to manage the business of the Company and the Bank successfully and to align executive officers interests with those of the stockholders of the Company. The program is structured to accomplish the following:

- encourage a consistent and competitive return to stockholders over the long-term, as the Company continues to deploy the capital raised in its 2005 initial public offering;
- maintain a corporate environment that encourages stability and a long-term focus for the primary constituencies of the Company, including employees, stockholders, communities, clients and government regulatory agencies;
- maintain a program that:
    - clearly motivates personnel to perform and succeed according to the current goals of the Company;
    - provides management with the appropriate empowerment to make decisions that benefit the primary constituents;
    - attracts and retains key personnel critical to the long-term success of the Company;
    - provides for management succession planning and related considerations;
    - encourages increased productivity; and

provides for subjective consideration in determining incentive and compensation components; and

ensure that management:

fulfills its oversight responsibility to its primary constituents;

conforms its business conduct to the Company s established ethical standards;

remains free from any influences that could impair or appear to impair the objectivity and impartiality of its judgments or treatment of the constituents of the Company; and

avoids any conflict between its responsibilities to the Company and each executive officer s personal interests.

Table of Contents

Compensation Principles and Factors

Business Plan Objectives. The Boards of Directors of the Company and the Bank periodically conduct a review of current and anticipated business conditions in the context of the Company s and the Bank s financial and competitive position. The review period typically includes at least the previous two fiscal years and up to five years prospectively. In connection with this review, management submits a business plan to the Boards of Directors of the Company and the Bank that proposes strategic, financial and management objectives for the period covered, using multiple scenarios in response to a variety of stated assumptions. The Boards of Directors then evaluate the proposed business plan, and modify its provisions to the extent they deem appropriate. The business plan is updated by management and the Boards of Directors periodically throughout the year to respond to changing circumstances and conditions. The business plan provides a basis for evaluating the future progress of the organization, including all appropriate strategic alternatives, and management s performance pursuant to the Human Resources Committee s Charter.

For 2008, the Human Resources Committee considered the Company s and the Bank s performance within the context of the 2008 business plan and management s overall performance, weighing numerous factors within and outside of management s control.

Corporate Performance and Peer Comparison. In establishing named executive officer compensation, the Human Resources Committee periodically evaluates the Company s and the Bank s performance compared to management s and the Board of Directors overall goals and business plan objectives as well as to other financial institutions. The Human Resources Committee believes that using the Company s and the Bank s performance as a factor in determining named executive officer compensation levels is a useful tool for aligning the executive officers interests with those of the stockholders of the Company. With that in mind, the Human Resources Committee focuses on the Company s and the Bank s overall performance relative to the prior calendar year and also considers the performance of local competitors. As part of the evaluation and review, the Human Resources Committee also takes into account the manner in which various subjective issues, such as competition and general economic conditions, including the financial markets and economic crises that affected the global and national economies in 2008, may have affected performance.

For purposes of comparative analysis in assessing performance, the Company generally considers commercial banks and savings institutions of similar asset size. The group of comparative institutions used in 2008 generally, but not exclusively, included local financial institutions with total assets of $1 billion to $10 billion. Given the ever-changing landscape within the banking industry, there is no specifically defined group of companies that is utilized for this analysis. The local financial institutions that were considered in 2008 included: Midwest Banc Holdings, Inc. (MBHI), Taylor Capital Group, Inc. (TAYC), First Midwest Bancorp, Inc. (FMBI), Amcore Financial, Inc. (AMFI), MB Financial, Inc. (MBFI), Wintrust Financial Corporation (WTFC), Privatebancorp Inc. (PVTB), CFS Bancorp, Inc. (CITZ) and Corus Bankshares, Inc. (CORS).

The Human Resources Committee believes that peer comparison is a useful tool for staying competitive in the marketplace and attracting and retaining qualified executives. While the Human Resources Committee believes that it is prudent to consider peer comparison in determining compensation practices, it does not set empirical parameters or benchmarks for using this data. Rather, the Human Resources Committee uses peer comparison data to ensure that executive compensation is reasonable relative to competing organizations.

Performance Reviews and Role of Executives in Committee Meetings. Management reports to the Board of Directors at least annually on its progress in achieving the strategic, financial and management objectives established by the business plan. The Board of Directors then considers the overall performance of the Company and its named executive officers in the context of these objectives, weighing numerous factors and conditions within and outside of management s control. Following this review, the Human Resources Committee reviews current and proposed compensation levels for the Chief Executive Officer and the other named executive officers. The Human Resources Committee relies in part upon the Chief Executive Officer s self-assessment as well as his assessment of each named executive officer s individual performance, which considers each named executive officer s achievements of his or her individual goals each year. However, the Board of Directors and Human Resources Committee exclude the Chief Executive Officer and all other named executive officers from their discussions and formal meetings concerning named executive officer compensation, except to receive the results of the decisions made by the Human Resources Committee or the Board of Directors and other relevant information.

Table of Contents

Information Resources and Role of Compensation Consultants. In reviewing current and proposed compensation levels for named executive officers, the Human Resources Committee considers the organizational structure and composition of the Company and the Bank, external information from public sources on peer and competitor compensation practices and levels and other information it deems relevant to its responsibilities. In 2006, the Human Resources Committee engaged Frederic W. Cook & Co. to assess the structure and reasonableness of the Company s executive compensation program, which incorporates cash incentive and equity incentive components. The Human Resources Committee continued to have access to its own outside counsel and compensation consultant during 2007 and 2008. The Human Resources Committee engaged Frederic W. Cook & Co. to assist in the preparation of the compensation aspects of reports filed with the Securities and Exchange Commission and to be available for consultations with outside counsel to the Human Resources Committee, but did not engage an independent compensation consultant for any other specific purpose in the 2007 and 2008 review process because it believed it had sufficient information from external, independent public sources to execute its responsibilities.

Components of Executive Compensation

General. All named executive officers of the Company, including the Chief Executive Officer, are currently executive officers of the Bank. On May 19, 2006, the Company adopted the 2006 EIP, and it was subsequently approved by the Company s stockholders at the 2006 annual meeting. Except for awards made pursuant to the 2006 EIP, the Company does not separately compensate its named executive officers. The compensation that the Bank pays to its named executive officers, however, is taken into account in establishing the inter-company expense allocations that the Company pays to the Bank. In connection with the mutual-to-stock conversion, the Bank also established a tax-qualified employee stock ownership plan (ESOP), and named executive officers are eligible to participate in the ESOP subject to vesting and other requirements and limitations applicable to all participants generally.

Base Salary. Generally, base salary levels are established based on job descriptions and responsibilities, either temporary or permanent in nature (including any revisions or proposed revisions thereto), competitive conditions and general economic trends in the context of the Bank s financial and franchise condition, and performance.

In 2009, the base salaries for the named executive officers, other than Robert J. O Shaughnessy, who retired at the end of 2008, increased by an amount equal to the increase in the 12-month Consumer Price Index as reported by the U.S. Treasury Department in October 2008 (this index was generally used throughout the Company for cost-of-living adjustments to base compensation).

Table of Contents

Name	Position	2008 Base Salary(1)	2009 Base Salary(1)	Percentage Change from 2008 to 2009
F. Morgan Gasior	Chairman of the Board, Chief Executive Officer and President	$ 395,906	$ 405,804	2.5%
Paul A. Cloutier	Executive Vice President and Chief Financial Officer	$ 252,728	$ 259,046	2.5%
James J. Brennan	Executive Vice President, Corporate Secretary and General Counsel	$ 302,409	$ 309,969	2.5%
Robert J. O Shaughnessy (Retired 12/31/08)	Executive Vice President and Chief Credit Officer	$ 258,154	$ 0	N/A
Christa N. Calabrese	Regional President	$ 221,275	$ 226,807	2.5%

(1) Base salary is effective as of March 17 for 2008 and March 16 for 2009.

Annual Cash Incentive Compensation. Annual cash incentive compensation reflects the relative achievement of the strategic, financial and management objectives established by the business plan, management s responses to unforeseen circumstances or conditions that materially differ from those originally assumed, and the individual goals established for each named executive officer. Annual cash incentive compensation is generally established as a range of possible awards based on a percentage of base salary. Other factors considered in establishing annual cash incentive compensation include recent changes or proposed changes to base salary or other compensation elements, as well as competitive considerations.

In general, the Company s business plan assumptions include a total annual cash incentive compensation pool between 10% and 20% of base salary for named executive officers, including the Chief Executive Officer. Absent extraordinary circumstances, annual cash incentive compensation typically will not exceed 20% of an executive officer s base salary. Provided that, if and as applicable, the Company s overall financial performance was generally consistent with the overall projected business plan results (taking into consideration factors both within and outside of the Company s control), the annual performance review process results in an award based on whether the named executive officer met, fell below or exceeded expectations for the individual goals applicable to the named executive officer. The Company does not use an empirical mathematical formula to determine the amount of the actual annual cash incentive compensation for named executive officers. The individual goals applicable to each named executive officer are discussed in Conclusions for the Year Ended December 31, 2008.

Equity-Based Compensation. The 2006 EIP established a mechanism by which awards of restricted stock or stock options could be utilized to further align the financial interests of employees, including the named executive officers, with stockholders and, in the future, provide an additional means to attract, retain and reward individuals who contribute to the success of the Company. The Human Resources Committee established share ownership guidelines (as described below) for the named executive officers and other executive officers. The Human Resources Committee also considers the significant financial investment required of a participant who retains shares granted under the 2006 EIP because such participant must pay current income tax obligations with respect to such shares without having the benefit of selling the shares to generate cash proceeds sufficient to pay such tax liability. In addition, consistent with the purpose of aligning management financial interests with stockholder interests, the Human Resources Committee delegated to the Chief Executive Officer the authority to make grants pursuant to and established a framework for the Chief Executive Officer s implementation of the 2006 EIP for individuals other than the executive officers of the Company or the Bank. In general, the delegated authority of the Chief Executive Officer is limited to grants to an aggregate of 120,000 restricted shares and 360,000 stock options, and to a maximum per individual of 10,000 restricted shares and 25,000 stock options.

The Human Resources Committee granted long-term equity-based compensation awards (consisting of both restricted stock and stock options) to its named executive officers in 2006, and a stock option award to one named executive officer in 2008 based on work performed in 2007 in connection with the U.S. Mortgage bankruptcy

Table of Contents

resolution and enhancements made to the Bank s internal compliance programs. In addition, the Human Resources Committee determined that, subject to certain limits and restrictions designed to preserve the Company s future flexibility, it was appropriate to provide certain officers the ability to elect to receive stock option awards in lieu of the cash incentive compensation that was awarded in 2008 based on 2007 performance, provided that the GAAP expense to the Company was effectively constant, prior to any market risk adjustments. The incentive compensation paid to named executive officers in 2009 based on their 2008 performance did not include any equity based compensation, and because of the limited number of stock options that remain available under the 2006 EIP, the named executive officers were not offered the ability to elect to receive stock option awards in lieu of their cash incentive compensation. The Human Resources Committee believes that the establishment of equity-based compensation programs has been an important tool for the retention and attraction of qualified management talent.

Share Ownership Guidelines. In the absence of difficult personal circumstances, the Human Resources Committee encourages the Chief Executive Officer and the other named executive officers of the Company to acquire with their own funds and hold a position in Company shares equal to 100% of the executive s three-year average annual cash compensation. At December 31, 2008, all but one of the Company s named executive officers met all elements of the Human Resources Committee s share ownership guidelines.

401(k) Plan. The Company has a tax-qualified defined contribution retirement plan covering all of its eligible employees. Employees are eligible to participate in the plan after attainment of age 21 and completion of six months of service. Prior to April 1, 2007, the Company matched employee contributions up to 5% of an employee s wages. The Company could also contribute an additional amount annually at the discretion of the Board of Directors. Effective April 1, 2007, the Board of Directors amended the match component of the plan to provide a fixed match in the amount of 50% of the first 6% of compensation deferred under the plan. The Board of Directors amended the match formula after considering the significant benefit provided to all eligible employees under the Bank s ESOP. Contributions totaling $442,000 were made to the 401(k) plan for 2008.

Employee Stock Ownership Plan and Trust. The Bank implemented the ESOP in connection with the mutual-to-stock conversion, effective as of January 1, 2004. Employees are eligible to participate in the ESOP after the attainment of age 21 and completion of at least one year of employment. As part of the mutual-to-stock conversion, the ESOP trust borrowed funds from the Company and used those funds to purchase 1,957,300 shares of common stock. The shares of common stock purchased by the ESOP are the collateral for the loan. The loan will be repaid principally from the Bank through discretionary contributions to the ESOP over a period of up to 20 years. The loan documents provide that the loan may be repaid over a shorter period, without penalty for prepayments. The interest rate for the loan equals the prime rate plus 100 basis points, adjustable every five years. Shares purchased by the ESOP are held in a suspense account for allocation among participants as the loan is repaid. The Company does not have any equity compensation program that was not approved by its stockholders, other than its ESOP.

Contributions to the ESOP, and shares released from the suspense account in an amount proportional to the repayment of the ESOP loan, are allocated among ESOP participants on the basis of compensation in the year of allocation. Benefits under the plan become fully vested upon completion of five years of credited service, with credit given to participants for years of credited service with the Bank prior to the adoption of the plan. A participant s interest in his or her account under the plan also fully vests in the event of termination of service due to a participant s early or normal retirement, death, disability, or upon a change of control (as defined in the plan). Vested benefits are payable in the form of shares of common stock and/or cash. Any unvested benefits will be forfeited upon termination of employment in accordance with the terms of the ESOP. Such forfeited amounts remain in the ESOP and are reallocated to remaining participants in accordance with the terms of the ESOP. The Bank s contributions to the ESOP are discretionary, subject to the loan terms and tax law limits. The ESOP will terminate in the event of a change of control (as defined in the plan).

All Other Compensation and Perquisites. The Human Resources Committee reviews and monitors the level of other compensation and perquisites offered to the named executive officers in the context of current business operations and general market practices.

In addition to participation in the standard life and disability insurance benefits available to all full-time employees, the Company has historically requested the insurable named executive officers to obtain additional life, accidental death and disability insurance coverage in an amount equal to the death benefit payable under their

Table of Contents

respective employment agreements. In the event of the death or disability of one of the participants, the obligations of the Bank or the Company, if any, under their respective employment agreements would be reduced on a dollar-for-dollar basis by the insurance proceeds received by the executive officer or the named beneficiary under the insurance policy. In exchange, the Bank reimbursed the participant for the after-tax cost of the annual insurance premium for the additional coverage. The Bank s 2007 purchase of bank-owned life insurance insuring the lives of certain officers, including the named executive officers, enabled the Bank to immediately eliminate all but one separate life insurance policy, and the remaining policy was eliminated effective January 1, 2009.

Excluding the effects of the Bank s contributions for the health, vacation, 401(k) and ESOP benefits available to all full-time employees and the Bank s reimbursement of the after-tax premium costs for additional life and disability insurance coverages, the Human Resources Committee generally believes that other compensation and perquisites should not exceed 10% of each named executive officer s total annual cash compensation. The Company s perquisite policy was amended in 2007 to reflect this limitation. As of December 31, 2008, the Company s compensation practices with respect to other compensation and perquisites met this standard.

Conclusions for Year Ended December 31, 2008

***Executive Summary*.** The following is a brief summary of the compensation decisions the Human Resources Committee made with respect to the named executive officers for 2008 and 2009:

- base salaries for the named executive officers, other than the Chief Executive Officer, increased by 2.3% for 2008, and for 2009, increased for all named executive officers other than Mr. O Shaughnessy, who retired on December 31, 2008, by 2.5%;

- aggregate annual cash incentive payments to the named executive officers for 2008 decreased modestly from the aggregate annual cash incentives paid for 2007; and

- other benefits and perquisites declined modestly.

***Review of Chief Executive Officer*.** The Human Resources Committee met outside the presence of management to review the Chief Executive Officer s performance in the context of the approved business plan and the extent to which established strategic, financial and management objectives were realized during the previous calendar year. The Human Resources Committee also evaluated the overall state of the Company s franchise and strategic position, capabilities and direction consistent with the Chief Executive Officer s execution of his leadership and planning responsibilities.

The Human Resources Committee reported that, at a meeting attended solely by committee members, it had reviewed and evaluated the self-assessment and other information provided by the Chief Executive Officer and other factors for the purpose of establishing the Chief Executive Officer s 2008 incentive compensation. The review encompassed five specific performance areas core earnings per share, internal controls, asset quality, marketing and business development, and leadership and planning. The Chief Executive Officer s performance was rated in each category based on whether the Chief Executive Officer s performance met, fell below or exceeded the expectations of the Board of Directors. Each category was assigned a weighting that represented a percentage of the overall composite rating. The Human Resources Committee determined that, on a composite basis, the Chief Executive Officer generally performed near the mid-point of the Board of Director s expectations in 2008. The Human Resources Committee noted specifically that management responded appropriately to interest rate, economic and competitive conditions, particularly with respect to liquidity management and U.S. Government support evaluations. The Human Resources Committee determined that the Chief Executive Officer exceeded the Board of Directors expectations with respect to internal controls, and met the Board of Directors expectations with respect to leadership and planning, asset quality, and marketing and business development. The Human Resources Committee further noted that the Company s earnings per share and core earnings per share had not met the Board of Director s expectations. In evaluating the comparative data, the Human Resources Committee considered the Company s performance during the prior calendar year to be more relevant than business plan targets due the financial markets and economic crises that affected the global and national economies in 2008.

Table of Contents

The table below summarizes the findings of the Human Resources Committee with respect to the Chief Executive Officer.

COMPONENT	Weight	2008 Performance	2008 Percentage
Core Earnings Per Share[1]	25%	Below	%
Internal Controls	25	Exceeded	20.0
Asset Quality	25	Met	15.0
Marketing & Business Development[3]	15	Met	15.0
Leadership & Planning	10	Met	15.0
Composite	**100%**	**Satisfactory**	**12.5%** [2]

CATEGORY	2007 Performance	2008 Performance	Plan
	(dollars in thousands, except for per share data)		
Earnings Per Share			
Earnings (Loss) Per Share	$ 0.35	$ (0.98)	$ 0.32
Core Earnings Per Share[1]	$ 0.59	$ 0.23	$ 0.50
Internal Controls			
No Significant or Material Deficiencies			
Asset Quality			
Non-Performing Assets (NPA)	$ 12,878	$ 14,613	
NPA to Total Assets	0.87%	0.94%	
Marketing & Business Development[3]			
Deposit Bal. > $100,000	$ 417,579	$ 376,020	
Deposit Bal. < $100,000	$ 655,835	$ 643,343	

(1) Core earnings per share represents earnings per share adjusted for the after-tax effect of equity-based compensation, the amortization of intangible expenses, VISA settlement expense, gain on VISA stock and loss on impairments.

(2) Represents the percentage of base salary awarded as cash incentive compensation.

(3) Excludes wholesale and internal deposit accounts.

Based on the foregoing, the Human Resources Committee concluded that the Chief Executive Officer should receive a cash incentive compensation award for 2008 of $49,488. This represents 12.5% of the Chief Executive Officer s 2008 base salary, compared to a 2007 incentive compensation award of $60,000 that represented 15.2% of the Chief Executive Officer s 2007 base salary. The Human Resources Committee also noted that it would continue and/or resume, as applicable, the standard increase to base compensation based on a cost-of-living index for all named executive officers, including the Chief Executive Officer. The members of the Human Resources Committee, acting in their capacity as the Company s Board of Directors, and with Mr. Gasior not participating, then ratified the actions of the Human Resource Committee with respect to the Chief Executive Officer.

Review of Other Named Executive Officers. The Human Resources Committee met outside the presence of management to review the performance of the other named executive officers of the Company. The Human Resources Committee noted that the Chief Executive Officer had submitted assessments of the performance of the other named executive officers of the Company to the Human Resources Committee, together with current and proposed base salary and cash incentive compensation recommendations. The assessments addressed the following specific performance areas and whether each individual met, fell below or exceeded expectations in the applicable performance area: (i) Mr. Cloutier oversight of financial reporting/budgeting functional reviews and

Table of Contents

improvements, liquidity and interest rate risk management and analysis of merger and acquisition activities; (ii) Mr. Brennan oversight of regulatory compliance and legal affairs, and coordination and supervision of merger and acquisition activities; (iii) Mr. O Shaughnessy oversight of residential, consumer and commercial loan origination, portfolio management and servicing (including merchant processing operations), implementation of deposit servicing technology initiatives and planning and conducting of merger and acquisition due diligence and integrations; and (iv) Ms. Calabrese development of new commercial customers, enhancement of cross-selling of existing customers, coordination and participation in loan portfolio risk management activities, and conduct of merger and acquisition due diligence and integration activities and planning. None of the assessments utilized a pre-determined empirical mathematical formula. The Human Resources Committee reviewed and evaluated the information provided by the Chief Executive Officer. Because the members of the Board of Directors have had considerable interaction with the Company s other named executive officers throughout the year, the Human Resources Committee determined that it had a strong basis to make an evaluation of the executive officers independent of the Chief Executive Officer s conclusions and recommendations. The Human Resources Committee determined that the Chief Executive Officer s conclusions and recommendations were appropriate, and approved the recommended cash incentive compensation awards to the other named executive officers. The members of the Human Resources Committee, acting in their capacity as the Company s Board of Directors, and with Mr. Gasior not participating, then ratified the actions of the Human Resources Committee with respect to the other named executive officers.

Reasonableness of Compensation

After considering all components of the compensation program for the named executive officers, the Human Resources Committee has determined that such compensation is reasonable and appropriate.

In making this determination, the Human Resources Committee considered many factors, including the following:

- management has positioned the Company for future success through the planning and execution of the strategic, financial and management objectives of the Company s business plan;

- the Company is increasingly well positioned in the communities it serves as a result of management s focus and execution of the Company s community bank mission;

- management responded appropriately to interest rate, economic and competitive conditions in 2008, resulting in a relatively consistent performance compared to 2007; and

- the Company s asset quality, liquidity and interest rate risk metrics were consistent in 2008, measured independently and on a comparative basis.

Tax and Accounting Treatment

Section 162(m) of the Internal Revenue Code. Section 162(m) of the Internal Revenue Code limits the tax deduction to $1 million for compensation paid to certain executive officers of public companies. The limitations on the deductibility of executive compensation imposed under Section 162(m) did not affect the Company during 2008 because the compensation paid to the Company s executive officers in 2008 did not exceed these limitations. The 2006 EIP provides the Human Resources Committee with flexibility to address issues that may arise under Section 162(m), and contains provisions that could be utilized to reduce its potential adverse effects.

Code Section 409A. The Human Resources Committee has monitored regulatory developments under Section 409A of the Internal Revenue Code, which was enacted as part of the American Jobs Creation Act of 2004 and deals with specific tax rules for non-qualified deferred compensation plans. The Company revised certain provisions in its employment agreements with the Chief Executive Officer, the other named executive officers and certain other officers to address Section 409A and the final Treasury Regulations under Section 409A, which were issued on April 10, 2007. The 2006 EIP provides the Human Resources Committee with flexibility to address issues that may arise under Section 409A, and contains provisions that could be utilized to reduce its potential adverse effects.

21

Table of Contents

Other Taxation Issues. The Human Resources Committee believes that, as the Company s compensation structures become more complex, the effects of the alternative minimum tax and other taxation issues could affect the net intended effect of the Company s compensation plans. Although no specific action is warranted at this time, the Human Resources Committee intends to monitor the effects of the alternative minimum tax and other taxation issues on the Company and its directors, officers and associates when evaluating various compensation principles, practices and plans.

Accounting for Stock-Based Compensation. The Financial Accounting Standards Board has adopted Statement of Financial Accounting Standards 123(R) (FAS 123(R)), which requires companies to record the compensation cost for stock options, restricted stock and other equity-based compensation arrangements that are provided to employees in return for employment service. The cost is based on the grant date fair value, and this cost is expensed over the requisite service period, which is normally the vesting period of the award. FAS 123(R) applies to awards granted or modified in years beginning in 2006 and thus will apply to the 2006 EIP. The Human Resources Committee evaluates the potential adverse impact of FAS 123(R) on future compensation expense when determining the size and types of awards to be granted under the 2006 EIP.

HUMAN RESOURCES COMMITTEE REPORT

We have reviewed and discussed the foregoing Compensation Discussion and Analysis with management. Based on our review and discussion with management, we have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and in BankFinancial Corporation s Annual Report on Form 10-K for the year ended December 31, 2008.

Submitted by:

Joseph A. Schudt, Chairman

Cassandra J. Francis

John M. Hausmann

Sherwin R. Koopmans

Terry R. Wells

Glen R. Wherfel

Members of the Human Resources Committee

Table of Contents

EXECUTIVE COMPENSATION

The following table sets forth information concerning the compensation of the Company s Chief Executive Officer, Chief Financial Officer and the Company s other three most highly compensated executive officers who served in such capacities during 2008:

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus[(1)]	Stock Awards[(2)]	Option Awards[(2)]	All Other Compensation[(3)]	Total Compensation
F. Morgan Gasior	2008	$ 395,906	$ 49,488	$ 881,000	$ 73,900	$ 42,615	$ 1,442,909
Chairman of the Board, Chief Executive Officer and President	2007	$ 395,906	$ 60,000	$ 881,000	$ 73,900	$ 57,986	$ 1,468,792
	2006	$ 393,245	$ 57,656	$ 881,000	$ 73,900	$ 64,242	$ 1,470,043
Paul A. Cloutier	2008	$ 251,417	$ 36,000	$ 440,500	$ 27,046	$ 42,588	$ 797,550
Executive Vice President and Chief Financial Officer	2007	$ 247,046	$ 36,000	$ 440,500	$ 25,126	$ 51,413	$ 800,085
	2006	$ 245,385	$ 35,978	$ 440,500	$ 25,126	$ 72,083	$ 819,072
James J. Brennan	2008	$ 300,840	$ 60,000	$ 440,500	$ 67,315	$ 43,821	$ 912,475
Executive Vice President, Corporate Secretary and General Counsel	2007	$ 295,610	$ 56,000	$ 440,500	$ 25,126	$ 54,563	$ 871,799
	2006	$ 293,623	$ 56,000	$ 440,500	$ 25,126	$ 75,369	$ 890,618
Robert J. O Shaughnessy	2008	$ 256,815	$ 48,000	$ 374,425	$ 33,968	$ 33,916	$ 747,123
Executive Vice President and Chief Credit Officer (Retired 12/31/08)	2007	$ 252,350	$ 48,000	$ 374,425	$ 31,408	$ 44,799	$ 750,981
	2006	$ 250,654	$ 48,000	$ 374,425	$ 31,408	$ 63,254	$ 767,740
Christa N. Calabrese	2008	$ 220,127	$ 20,000	$ 88,100	$ 26,619	$ 33,636	$ 388,482
Regional President	2007	$ 216,300	$ 28,000	$ 88,100	$ 25,126	$ 43,191	$ 400,717
	2006	$ 214,846	$ 28,500	$ 88,100	$ 25,126	$ 53,936	$ 410,508

(1) Each named executive officer, except for Mr. Brennan, elected to receive stock options in lieu of cash under the 2007 management incentive plan. The number of stock options received had a grant date fair value (calculated according to the Company s FAS 123(R) GAAP expense for the stock options) equal to the amount of the cash incentive compensation foregone. In addition, stock options equal to 10% of the stock options received in lieu of the cash incentive award were granted to compensate for the additional market risk associated with the stock option awards (with the exception of the Chief Executive Officer). On February 26, 2008, stock options were granted to the named executive officers, except for Mr. Brennan, in lieu of cash. Mr. Brennan was separately awarded stock options based on other factors. See the Grants of Plan-Based Awards table on page 24 for grant details.

(2) The amounts set forth in the Stock Awards column and the Option Awards column reflect the dollar amount recognized for financial statement reporting purposes for the years ended December 31, 2008, 2007, and 2006 in accordance with FAS 123(R). As required under SEC rules, the amounts recognized for the February 26, 2008 stock options granted at the election of the named executive officers in lieu of the 2007 cash bonus are excluded under this column and reported as Bonus . However, the additional stock options equal to 10% of the stock options in lieu of cash are reflected under these columns. The assumptions used in calculating these amounts are set forth in Note 16 to our Financial Statements for the year ended December 31, 2008, which is located on pages 89 through 91 of our Annual Report on Form

10-K.

(3) All other compensation for the named executive officers during fiscal 2008 is summarized on the following pages.

Table of Contents

Name	Perquisites[i]	Insurance[ii]	Tax Reimbursement[iii]	401(k) Match	ESOP Contribution[iv]	Total All Other Compensation
F. Morgan Gasior	$ 18,872	$ 1,676	$ 1,889	$ 5,750	$ 14,429	$ 42,615
Paul A. Cloutier	$ 18,600	$ 1,663	$ 996	$ 6,900	$ 14,429	$ 42,588
James J. Brennan	$ 19,813	$ 1,676	$ 1,003	$ 6,900	$ 14,429	$ 43,821
Robert J. O Shaughnessy	$ 9,908	$ 1,676	$ 1,003	$ 6,900	$ 14,429	$ 33,916
(Retired 12/31/08)						
Christa N. Calabrese	$ 9,865	$ 1,528	$ 915	$ 6,900	$ 14,429	$ 33,636

(i) Includes use of an automobile or an automobile allowance, and in the case of Messrs. Gasior, Cloutier and Brennan, club dues.

(ii) Consists of premiums paid by the Company during the fiscal year with respect to short- and long-term disability insurance for each named executive officer, and for a life insurance policy maintained during 2008 on Mr. Gasior. Certain amounts were paid by the named executive officer and reimbursed by the Company under employment agreement provisions that reduce, on a dollar-for-dollar basis, the Bank s obligations under such executive s employment agreement in the event of the executive s death or disability by the amount of insurance proceeds received by the executive s named beneficiary. The Bank s 2007 purchase of bank-owned life insurance enabled the Bank to immediately eliminate all but one separate life insurance policy, and the remaining policy was eliminated effective January 1, 2009.

(iii) Reflects reimbursement for income and employment taxes incurred by the executive as a result of the insurance premiums paid by the executive and reimbursed by the Company. The amount for Mr. Gasior includes reimbursement for taxes related to imputed income for additional life insurance coverage. See note (ii) above and discussion below for additional information.

(iv) Includes the Bank s contribution to the executive s ESOP account plus any amounts reallocated as a result of forfeitures by terminated ESOP participants.

Grants of Plan-Based Awards

In 2008, the Company granted equity awards to one of the named executive officers under the 2006 EIP. Specifically, based on work performed in 2007 in connection with the U.S. Mortgage bankruptcy resolution and enhancements to the Bank s internal compliance programs, in February 2008, the Company awarded Mr. Brennan 80,667 stock options under the 2006 EIP in addition to his cash incentive compensation for 2007. All other grants to named executive officers related to stock options received in lieu of cash incentive compensation.

Name	Grant Date	All Other Option Awards: # of Securities Underlying Options	Exercise of Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Option Awards [3]
F. Morgan Gasior	2/26/08(1)	100,000	$ 14.82	$ 52,300
Paul A. Cloutier	2/26/08(1)	60,000	$ 14.82	$ 31,380
	2/26/08(2)	6,000	$ 14.82	$ 3,840
James J. Brennan	2/26/08	80,667	$ 14.82	$ 42,189
Robert J. O Shaughnessy[4]	2/26/08(1)	80,000	$ 14.82	$ 41,840
(Retired 12/31/08)	2/26/08(2)	8,000	$ 14.82	$ 5,120
Christa N. Calabrese	2/26/08(1)	46,667	$ 14.82	$ 24,407
	2/26/08(2)	4,667	$ 14.82	$ 2,987

(1) Grants shown reflect the number of stock options awarded to each named executive officer, other than Mr. Brennan, in lieu of the cash incentive award pursuant to the 2007 management incentive plan.

(2) Grants shown reflect 10% of the number of stock options received in lieu of the 2007 cash incentive award to compensate participants for the additional market risk associated with the stock option awards pursuant to the 2007 management incentive plan.

(3) Amounts in this column represent the fair value of the full 2008 awards indicated, calculated in accordance with FAS 123(R). The assumptions used in calculating these amounts are set forth in Note 16 to our Financial Statements for the year ended December 31, 2008, which is located on pages 89 through 91 of our Annual Report on Form 10-K.

(4) Mr. O Shaughnessy retired from the Company on December 31, 2008. All of his unvested stock options and restricted stock awards became vested on April 13, 2009.

Table of Contents

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information concerning the exercisable and unexercisable stock options and unvested shares of restricted stock at December 31, 2008 held by the individuals named in the summary compensation table:

	Option Awards				Stock Awards	
Name	# of Securities Underlying Unexercised Options Exercisable	# of Securities Underlying Unexercised Options Unexercisable(1)	Option Exercise Price ($)	Option Expiration Date	# of Shares or Units of Stock That Have Not Vested(2)	Market Value of Shares or Units of Stock That Have Not Vested ($)(3)
F. Morgan Gasior	75,000	50,000	$ 17.62	9/5/2011	50,000	$ 509,500
	75,000		$ 17.62	9/5/2011		
	100,000		$ 14.82	9/5/2011		
Paul A. Cloutier	51,000	34,000	$ 17.62	9/5/2011	10,000	$ 101,900
	60,000		$ 14.82	9/5/2011		
	3,000	3,000	$ 14.82	9/5/2011		
James J. Brennan	51,000	34,000	$ 17.62	9/5/2011	10,000	$ 101,900
	80,667		$ 14.82	9/5/2011		
Robert J. O Shaughnessy(4)	63,750	21,250	$ 17.62	9/5/2011	21,250	$ 216,538
(Retired 12/31/08)	80,000		$ 14.82	9/5/2011		
	4,000	4,000	$ 14.82	9/5/2011		
Christa N. Calabrese	51,000	34,000	$ 17.62	9/5/2011	10,000	$ 101,900
	46,667		$ 14.82	9/5/2011		
	2,334	2,333	$ 14.82	9/5/2011		

(1) The table below shows the remaining service-based vesting schedule for all unexercisable options granted on September 5, 2006 with an exercise price of $17.62.

Name	12/15/2009	12/15/2010
F. Morgan Gasior	25,000	25,000
Paul A. Cloutier	17,000	17,000
James J. Brennan	17,000	17,000
Christa N. Calabrese	17,000	17,000

The table below shows the remaining service-based vesting schedule for all unexercisable options granted on February 26, 2008 with an exercise price of $14.82.

Name	6/15/2009

Paul A. Cloutier	3,000
Christa N. Calabrese	2,333

(2) The table below shows the remaining service-based vesting schedule for all unvested restricted shares granted on September 5, 2006.

Name	**12/15/2009**	**12/15/2010**
F. Morgan Gasior	25,000	25,000
Paul A. Cloutier	5,000	5,000
James J. Brennan	5,000	5,000
Christa N. Calabrese	5,000	5,000

(3) The market value of shares is based on a closing stock price of $10.19 on December 31, 2008. Mr. O Shaughnessy s unvested stock options and restricted share awards became vested on April 13, 2009.

25

Table of Contents

Option Exercises and Stock Vested During 2008

The following table reflects shares of restricted stock held by the named executive officers that vested during 2008. No options were exercised by the named executive officers during 2008. Of these awards, the vesting of 25,000 shares of Mr. Gasior s restricted stock was conditioned on the attainment of the following specific performance goals as of September 30, 2008: (i) the Bank s tangible capital and core capital ratios must equal or exceed 6%; (ii) the Bank s risk-based capital ratio must equal or exceed 10%; and (iii) the Bank s nonperforming asset ratio must be less than 2.75%. The Human Resources Committee certified on November 6, 2008 that these performance goals had been attained as of September 30, 2008. The vesting of the restricted shares held by the other named executive officers, and all remaining unvested restricted shares held by the five named executive officers, are not conditioned on the attainment of any specific performance goals.

	Stock Awards	
Name	# of Shares Acquired on Vesting	Value Realized on Vesting ($)(1)
F. Morgan Gasior	50,000	$ 552,000
Paul A. Cloutier	25,000	$ 264,250
James J. Brennan	25,000	$ 264,250
Robert J. O Shaughnessy (Retired 12/31/08)	21,250	$ 224,613
Christa N. Calabrese	5,000	$ 52,850

(1) Generally reflects amounts realized on December 15, 2008 at a closing stock price of $10.57, except for Mr. Gasior who also realized amounts on November 6, 2008 at a closing stock price of $11.51 for achievement of capital adequacy and asset quality performance goals.

Table of Contents

Potential Payments Upon Termination or Change of Control

The following table sets forth information concerning potential payments and benefits under the Company s compensation programs and benefit plans to which the named executive officers would be entitled upon a termination of employment as of December 31, 2008. As is more fully described below, the named executive officers entered into employment agreements with the Company and/or the Bank, as applicable (each, an Employment Agreement), which provide for payments and benefits to a terminating executive officer following a termination other than for cause or by resignation. In addition, award agreements under the 2006 EIP (the Award Agreements) provide for the accelerated vesting of unvested awards in similar circumstances, and in addition, upon the occurrence of a change of control of the Company. Except for the payments and benefits provided by the Employment Agreements and the Award Agreements, all other payments and benefits provided to any named executive officer upon termination of his or her employment are the same as the payments and benefits provided to other eligible executives of the Bank. For purposes of estimating the value of certain equity awards, the Company has assumed a price per share of the Company s common stock of $10.19, which was the closing price of the Company s common stock on December 31, 2008, the last trading day of the year.

Executive	Potential Payments Upon Termination or Change of Control	Termination by the Bank For Cause	For Disability(1)	Without Cause(2)	Termination by Executive By Resignation	For Good Reason(2)	Upon Death(3)	Change of Control (4)
F. Morgan Gasior	Cash payments	$ 0	$ 988,359	$ 1,416,779	$ 0	$ 1,416,779	$ 988,359	$ 1,416,779
	Accelerated Equity Awards	$ 0	$ 509,500	$ 509,500	$ 0	$ 509,500	$ 509,500	$ 509,500
	Continued Benefits	$ 0	$ 17,108	$ 18,114	$ 0	$ 18,114	$ 17,108	$ 18,114
Paul A. Cloutier	Cash payments	$ 0	$ 629,528	$ 894,715	$ 0	$ 894,715	$ 629,528	$ 894,715
	Accelerated Equity Awards	$ 0	$ 101,900	$ 101,900	$ 0	$ 101,900	$ 101,900	$ 101,900
	Continued Benefits	$ 0	$ 25,871	$ 27,393	$ 0	$ 27,393	$ 25,871	$ 27,393
James J. Brennan	Cash payments	$ 0	$ 764,860	$ 1,167,162	$ 0	$ 1,167,162	$ 764,860	$ 1,167,162
	Accelerated Equity Awards	$ 0	$ 101,900	$ 101,900	$ 0	$ 101,900	$ 101,900	$ 101,900
	Continued Benefits	$ 0	$ 26,063	$ 27,597	$ 0	$ 27,597	$ 26,063	$ 27,597
Robert J. O Shaughnessy	Cash payments	$ 0	$ 654,134	$ 958,719	$ 0	$ 958,719	$ 654,134	$ 958,719
(Retired 12/31/08)	Accelerated Equity Awards	$ 0	$ 216,538	$ 216,538	$ 0	$ 216,538	$ 216,538	$ 216,538
	Continued Benefits	$ 0	$ 2,506	$ 3,222	$ 0	$ 3,222	$ 2,506	$ 3,222
Christa N. Calabrese	Cash payments	$ 0	$ 548,780	$ 762,923	$ 0	$ 762,923	$ 548,780	$ 762,923
	Accelerated Equity Awards	$ 0	$ 101,900	$ 101,900	$ 0	$ 101,900	$ 101,900	$ 101,900
	Continued Benefits	$ 0	$ 2,389	$ 3,072	$ 0	$ 3,072	$ 2,389	$ 3,072

(1) Cash payments include prorated annual average cash incentive compensation for the year of termination, prorated employer matching 401(k) contribution for the year of termination, and base salary the executive would have received from the date of termination through the end of his/her employment period. Accelerated equity awards reflect the intrinsic value of unvested outstanding equity awards based on the closing stock price on December 31, 2008 of $10.19. Continued benefits reflect incremental cost of core benefits to the Company during the continuation period based on actual cost for 2008. Excludes any reduction in benefit as a result of disability insurance or federal social security disability payments.

(2) Cash payments include prorated annual average cash incentive compensation, prorated employer matching 401(k) contribution, and three times the executive s three-year average compensation. Accelerated equity awards reflect the intrinsic value of unvested outstanding equity awards based on the closing stock price on December 31, 2008 of $10.19. Continued benefits reflect incremental cost of core benefits to the Company for 36 months based on actual cost for 2008.

(3) Cash payments include prorated annual average cash incentive compensation for the year of termination, prorated employer matching 401(k) contribution for the year of termination, and base salary the executive would have received from the date of termination through the end of his/her employment period. Accelerated equity awards reflect the intrinsic value of unvested outstanding equity awards based on the closing stock price on December 31, 2008 of $10.19. Continued benefits reflect incremental cost of core benefits to the Company during the continuation period based on actual cost for 2008. Excludes any reduction in benefit as a result of disability insurance or federal social security disability payments.

Footnotes continued on following page.

Table of Contents

(4) The payments reflected in this column assume the executive was terminated for good reason in connection with a change of control. Cash payments include prorated annual average cash incentive compensation for the year of termination, prorated employer matching 401(k) contribution, and three times the executive s three-year average compensation. Accelerated equity awards reflect the intrinsic value of unvested outstanding equity awards based on the closing stock price on December 31, 2008 of $10.19. Continued benefits reflect incremental cost of core benefits to the Company for 36 months based on actual cost for 2008. The acceleration upon a change of control will occur regardless of the named executive officers continued employment. If applicable, executive severance benefits under the Bank level employment agreements are reduced to avoid constituting an excess parachute payment under Section 280G of the Internal Revenue Code. No reduction in benefits was required as of the assumed December 31, 2008 termination date.

Accrued Pay and Regular Retirement Benefits. The amounts shown in the table on the previous page do not include payments and benefits to the extent they are provided on a non-discriminatory basis to salaried employees generally upon termination of employment. These include:

- Accrued but unpaid salary and vacation pay.
- Distributions of plan balances under the Bank s 401(k) plan and its ESOP. See 401(k) Plan and Employee Stock Ownership Plan and Trust on page 18 for an overview of the 401(k) and the ESOP.
- The value of option continuation upon retirement, death or disability. Except as may be provided in connection with a change of control, when an employee terminates employment other than for cause and prior to retirement, death or disability, his or her vested stock options will remain exercisable for a period of three months following termination. When an employee is terminated for cause, his or her stock options, whether vested or unvested, are terminated immediately. When a retirement-eligible employee terminates employment, or when an employee dies or becomes disabled, his or her vested stock options remain exercisable for 12 months following the date of his or her termination.

Acceleration of Vesting Upon a Change of Control. Upon the occurrence of a change of control of the Company, unless otherwise stated in an award agreement, all outstanding options and Stock Appreciation Rights (SARs) then held by a participant, including each of the named executive officers, who is employed by, or providing services to, the Company or its subsidiaries at the time of such change of control will become fully exercisable and all stock awards or cash incentive awards shall be fully earned and vested (subject to limitations on performance-based awards). Any such options or SARs, the vesting of which is accelerated upon the occurrence of a change of control, shall remain exercisable in accordance with their terms. The Company has not awarded any SARs under the 2006 EIP.

Employment Agreements. The Bank entered into employment agreements with each of Messrs. Gasior, Cloutier, Brennan and O Shaughnessy in 2003. In August 2004, the Bank entered into an employment agreement with Ms. Calabrese that is substantially similar to the employment agreements for the other four named executive officers. The employment agreements were amended and restated in May 2008, principally to ensure compliance with Section 409A of the Internal Revenue Code. Each employment agreement and amended and restated employment agreement had an initial term of 36 months that can be extended each year for an additional year, at the discretion of the Board of Directors, so that the remaining term will be 36 months.

Mr. O Shaughnessy s amended and restated employment agreement with the Bank was terminated effective December 31, 2008, pursuant to the terms of a Retirement Agreement that he entered into with the Bank dated October 20, 2008. The Board of Directors of the Bank most recently reviewed the Bank s amended and restated employment agreements with Messrs. Gasior, Cloutier and Brennan and Ms. Calabrese in March 2008, and approved the extension of their terms through March 31, 2012.

Under the amended and restated employment agreements, the Bank will pay the executive officers the base salary reflected in the payroll records, subject to discretionary increases by the Board of Directors. The 2008 base salaries for Messrs. Gasior, Cloutier, Brennan and O Shaughnessy were $395,906, $300,840, $251,417 and $256,815, respectively, and the 2008 base salary for Ms. Calabrese was $220,127. The amended and restated employment agreements provide that the base salary may be increased but not decreased. The amended and restated employment agreements also provide that the named executive officer will receive the use of an automobile or an automobile allowance and the payment of designated club dues, provided that, in a given year, these payments may not, in the aggregate, exceed ten percent of the named executive officer s cash compensation. The amended and restated employment agreements further provide that the named executive officer is entitled to participate with other executive officers in incentive compensation and discretionary bonuses declared by the Board. In addition to base salary and bonus, the employment agreements provide for, among other things, participation in a Section 125 cafeteria plan, group medical, dental, vision, disability and life insurance plans, referred to as the core plans, 401(k) plan, the ESOP and other employee and fringe benefits applicable to executive personnel.

During the employment period, each executive officer is provided with a supplemental disability insurance policy that pays 60% of base salary for the remaining term of the agreement in the event the executive officer is terminated due to disability. If an executive officer becomes disabled, his or her base salary will be reduced proportionately by the disability payments made under the disability policy and under the federal social security system. Each executive officer is responsible for paying the premiums but receives an annual allowance in an amount sufficient, on an after-tax basis, to equal the premium payments. In the event of termination of employment due to disability, the executive officer will be entitled to his or her earned salary, the prorated annual average of any cash incentive compensation and bonus that the executive officer received during the preceding two fiscal years, referred to as prorated incentive compensation, and the prorated employer matching 401(k) plan contribution that the executive officer would be entitled to receive for the current year, referred to as accrued plan contribution. In addition, the executive officer will be entitled to the base salary the executive officer would have been paid through the date the employment period would have expired if the executive officer s employment had not been sooner terminated due to disability, which will be reduced on a dollar-for-dollar basis by the disability insurance and federal social security disability payments referenced above, and continued coverage under the core plans through the date the employment period would have expired, subject to the executive officer s continued payment of the costs and contributions for which he or she is responsible. After their continued coverage under the core plans expires, Messrs. Gasior, Cloutier and Brennan and Ms. Calabrese may elect to continue their health care coverage at their sole expense and without any cost to the Bank until they become eligible for Medicare coverage or for coverage under another employer s group health plan.

In addition to the life insurance benefits provided to regular full-time employees, a supplemental life insurance policy was historically provided to each insurable executive officer in an amount not less than three times the executive officer s base salary. In May 2007, the Bank purchased bank-owned life insurance insuring the lives of certain officers, including the named executive officers. The purchase of bank-owned life insurance enabled the Bank to eliminate the separate life insurance policies on all named executive officers except Mr. Gasior in 2007, and on Mr. Gasior on January 1, 2009.

In the event the executive officer s employment is terminated due to death, his or her surviving spouse and minor children, if any, will be entitled to the same coverage under the core plans that the executive officer would have been provided if his or her employment had terminated due to disability. In addition, the executive officer s estate or trust, as applicable, will be entitled to the base salary the executive officer would have been paid through the date the employment period would have expired if the executive officer s employment had not been sooner terminated due to death. If a supplemental life insurance policy has been obtained on the life of the executive officer, the Bank s obligation to make such payments will be reduced on a dollar-for-dollar basis by the death benefit payments under any supplemental life insurance policy purchased for an executive officer. Also, with respect to Ms. Calabrese only (consistent with the terms of her previous employment agreement with Success National Bank, which the Company acquired in 2001), an amount equal to the prorated annual average cash incentive compensation and a prorated employer 401(k) matching contribution would be due. Except with respect to continued coverage under the core plans and the ability to elect to continue health care coverage under the core plans for an additional period at no cost to the Bank, the Bank will generally have no obligation to pay or provide an executive officer s estate, surviving spouse, or minor children with any other compensation or benefits on account of the executive officer s death.

In the event the executive officer s employment is terminated without cause by the Bank, the executive officer will receive his or her earned salary, prorated incentive compensation, accrued plan contribution, continued coverage under the core plans for 36 months, subject to the executive officer s payment of costs and contributions for which he or she is responsible, the ability to continue health care coverage thereafter at his or her sole expense, and an amount equal to three times his or her average annual compensation. Payment of benefits will be made in a single lump sum.

Table of Contents

Under the amended and restated employment agreements, the executive officer may terminate his or her employment for Good Reason by giving notice within 60 days after the event giving rise to the right to terminate employment. Good Reason generally includes (i) the Bank s decision not to re-elect or failure to re-elect the executive officer to his or her present position; (ii) the Bank s failure to extend the executive officer s employment period on the anniversary date for an additional year so that the remaining term of the employment agreement will be 36 months; (iii) the relocation of the executive officer s principal place of employment by more than a specified distance; (iv) the reduction in the executive officer s base salary or a material reduction in benefits to which the executive officer is entitled; (v) the liquidation or dissolution of the Bank or the Company; (vi) the Bank s material uncured breach of the employment agreement; and (vii) the occurrence of a Change of Control as such term is defined in the 2006 EIP. With respect to Mr. Gasior s employment agreement, Good Reason also includes the failure to elect or re-elect him as Chairman of the Board of Directors of the Bank, a change in the composition of the Board of Directors of the Bank such that the current directors no longer constitute a majority of the board other than in certain circumstances where the new board is nominated or appointed by the existing board, or a significant reduction in the scope of his duties, powers, privileges, authority or responsibilities. In the event an executive officer s employment is terminated for Good Reason, he or she will receive the same amounts, the same coverage under the core plans and the same health insurance coverage continuation rights that he or she would have received if his employment had been terminated without cause. An executive officer who terminates his or her employment by resignation other than due to Good Reason will only be entitled to his or her earned salary and vacation through the date of termination.

The executive officer is required under the amended and restated employment agreement to execute a general release in consideration for any severance amounts. The executive officer also agrees not to compete with the Bank or its affiliates for six months after termination or during the period that severance amounts are paid, if longer. In addition, the executive officer agrees not to solicit the Bank s customers, their business or the Bank s employees for eighteen months, which may be reduced in certain circumstances. Payment of amounts due the named executive officers under the amended and restated employment agreements will generally be made in a single lump sum and will be reduced as may be necessary to avoid constituting an excess parachute payment under Section 280G of the Internal Revenue Code.

In October 2008, the Company entered into employment agreements with Messrs. Gasior, Cloutier and Brennan. The employment agreements have three-year terms and, except as discussed below, are otherwise substantially similar to the respective amended and restated employment agreements that these individuals have with the Bank. The Board of Directors of the Company most recently reviewed the Company s employment agreements with Messrs. Gasior, Cloutier and Brennan and approved the extension of their terms through March 31, 2012.

The Company does not separately compensate Messrs. Gasior, Cloutier or Brennan for their services to the Company, except for awards made by the Company under the 2006 EIP. Instead, the Bank pays and provides their cash compensation and benefits (other than benefits under the 2006 EIP), and allocates a portion of this expense to the Company pursuant to an intercompany expense sharing arrangement in proportion to the time and services that they provide to the Company. The employment agreements between the Company and Messrs. Gasior, Cloutier and Brennan thus provide that any cash compensation and benefits that become simultaneously due under both their employment agreements with the Company and their amended and restated employment agreements with the Bank will be subtracted from those due Messrs. Gasior, Cloutier and Brennan under their respective employment agreements with the Company. The payments and benefits (other than benefits under the 2006 EIP) that each of Messrs. Gasior, Cloutier and Brennan will receive under his employment agreement with the Company if his employment is terminated without cause, for Good Reason or due to death or disability are the same as those provided for in their respective amended and restated employment agreements with the Bank.

The primary material differences between the Company s employment agreements with Messrs. Gasior, Cloutier and Brennan and their respective amended and restated employment agreements with the Bank are that their employment agreements with the Company provide for indemnification under Maryland law (the Company s state of incorporation) rather than applicable federal law, and further provide that, upon the termination of employment based on the occurrence of a Change of Control as that term is defined in the 2006 EIP, (i) all payments that would otherwise be payable in a series of installments instead will generally be paid in a single lump sum within five business days of the date of termination; (ii) the restricted periods applicable to the non-competition and non-solicitation covenants set forth in their respective employment agreements with the Company and their amended and restated employment agreements with the Bank will be reduced to six months and the scope of the competitive restrictions will be limited to those that existed immediately prior to the Change of Control; and (iii) all obligations that may become due simultaneously under both the Company s employment agreements with Messrs. Gasior, Cloutier and Brennan and their respective amended and restated employment agreements with the Bank will first be provided under their employment agreements with the Company. The Company employment agreements do not impose a limit on the compensation that would be payable to Messrs. Gasior, Cloutier or Brennan upon the occurrence of a Change of Control to avoid an excess parachute payment under Section 280G of the Internal Revenue Code. However, the payments and benefits that would become due to Messrs. Gasior, Cloutier and Brennan upon the occurrence of a Change of Control currently would not result in any excess parachute payments based on their current and historic compensation levels and the relevant terms of their Company employment agreements.

The Bank entered into a Retirement Agreement with Mr. O Shaughnessy dated October 20, 2008, which provided for the termination of his employment and his amended and restated employment agreement with the Bank, effective on December 31, 2008. In accordance with the Retirement Agreement, the Board of Directors awarded Mr. O Shaughnessy, in addition to his cash incentive compensation for 2008, a special retirement bonus in the amount of $120,000 in recognition of Mr. O Shaughnessy s contributions to the Bank s asset quality performance during his tenure as Chief Credit Officer, and as separate supplemental consideration for a general release of claims and waiver of rights. Mr. O Shaughnessy s participation in all compensation and other benefit plans ceased on December 31, 2008, except with respect to restricted shares and stock options that were previously awarded to him under the 2006 EIP. Mr. O Shaughnessy s outstanding restricted stock and stock option awards under the Company s 2006 EIP were amended to provide that the awards will have the same vesting and expiration terms upon his attainment of age 70 that would have been applicable if Mr. O Shaughnessy had retired from his employment with the Company and the Bank at age 70. Certain of the restrictions set forth in Mr. O Shaughnessy s amended and restated employment agreement with the Bank remain in effect, including non-competition, non-solicitation, cooperation and confidentiality covenants. The Retirement Agreement also extended the restricted period of the non-competition covenant in Mr. O Shaughnessy s amended and restated employment agreement with the Bank to 24 months and precludes Mr. O Shaughnessy from performing loan review services for certain entities.

Mr. O Shaughnessy has agreed to perform consulting services for the Company for a period of 12 months after his retirement in accordance with the terms of a Consulting Agreement between him and the Company dated October 20, 2008. The Company, in its sole discretion, may offer to extend the term of the Consulting Agreement for an additional six months. The consulting services that Mr. O Shaughnessy is required to provide under the Consulting Agreement include assistance with loan reviews, residential and commercial lending operations, merchant processing, deposit servicing, pre-purchase due diligence and other matters assigned by the Company. The Consulting Agreement provides for a maximum of 50 hours of consulting services per month during the first 12 months. The Consulting Agreement provides that the Company will pay Mr. O Shaughnessy a monthly consulting fee of $9,750 during the first 12 months for these consulting services. If the Company offers to extend the term of the Consulting Agreement for an additional six months, Mr. O Shaughnessy will be compensated for his consulting services during the six month period at the rate of $195 per hour.

Compensation of Directors

Directors Fees. All directors of the Company are also directors of the Bank. Except for Mr. Gasior, who receives no fees for serving as a director, committee chairperson or committee member, the directors of the Bank received an annual Board fee of $2,000 per month for preparing for and attending meetings of the Board of Directors of the Bank during 2008. Except for the Audit Committee, the Bank did not pay its directors a separate fee during 2008 for serving on board committees. The members of the Audit Committee were paid an Audit Committee fee during 2008 due to the fact that the Audit Committee is a required entity with separate responsibilities established by applicable laws and regulations. During 2008, the Bank paid an Audit Committee fee of $1,000 per quarter to Mr. Hausmann (the Chairman of the Audit Committee), and $800 per quarter to Mr. Wells (a member of the Audit Committee).

The Company did not separately compensate the members of its Board of Directors during 2008 for preparing for and attending meetings of the Board of Directors of the Company. A portion of the Board fees that the Bank paid to its directors, however, were allocated to the Company in the inter-company expense allocations that were

Table of Contents

made between the Company and the Bank during 2008. The Company paid an Audit Committee fee of $800 per quarter to Mr. Koopmans during 2008 for serving on the Company s Audit Committee, but did not compensate the other members of the Audit Committee due to the Audit Committee fee that they received from the Bank. The Company also partially reimbursed Mr. Koopmans for his travel expenses for attending meetings of the Company s Board of Directors.

In connection with its review of the Board of Directors compensation program, the Human Resources Committee considered the relative merits of paying fees to the directors in the form of cash versus equity. The Human Resources Committee considered the fact that the Board of Directors had already eliminated all board committee fees (except for the Audit Committee, as it is a legally-required independent entity within the Board structure), and thus the Board fees themselves were the only remaining compensation element to evaluate. The Human Resources Committee also considered the extent to which (if at all) the relative composition of Board compensation should differ from that of senior management at any given point in time. Based on these and other relevant factors, the Human Resources Committee recommended, and the Boards of Directors of the Company and the Bank approved, the following amendments to the 2008 Board of Directors compensation program on February 20, 2008: (i) the Bank discontinued the payment of Board fees for the remainder of 2008; (ii) the Board of Director fees paid by the Company for the remainder of 2008 were paid in the form of stock options, commencing with Board fees due for March of 2008; (iii) the Company awarded each member of the Company s Board stock options having a grant date fair value equal to $22,000 in lieu of the $20,000 in cash that otherwise would have been paid by the Bank as cash for Board of Directors fees for the remainder of 2008, with the 10% increase in the total Board of Directors fees attributable to the market risk that each Director must accept due to this change; (iv) 25% of the stock options awarded to each Director vested on March 15, 2008, and the remaining stock options vested ratably on each of June 15, 2008, September 15, 2008 and December 15, 2008; and (v) the Chairman of the Audit Committee continued to receive a cash Audit Committee fee of $1,000 per quarter, and the other members of the Audit Committee continued to receive a cash Audit Committee fee of $800 per quarter, due to the fact that the Audit Committee is a required entity with separate responsibilities established by applicable laws and regulations. The number of stock options granted to named directors under this amendment to the 2008 Board compensation totaled 231,984. Due to the limited number of stock options remaining under the 2006 EIP, the Board of Directors, acting on the recommendation of the Human Resources Committee, reinstated the $24,000 annual cash Board of Directors fee in connection with its adoption of the 2009 Board compensation program. The Audit Committee fees for 2009 are unchanged from 2008. The stock options awarded in 2008, the Board fees for 2009 and Audit Committee fees for 2008 and 2009 have been taken into account in the inter-company expense allocations between the Company and the Bank.

Equity-Based Compensation. The 2006 EIP established a mechanism by which awards of restricted stock or stock options could further align the financial interests of the directors of the Company and the Bank with stockholders and, in the future, provide an additional means to attract, retain and reward individuals who can and do contribute to the success of the Company. The Board of Directors granted long-term equity-based compensation awards (consisting of both restricted stock and stock options) to its members in 2006 as described in the table on the following page. All awards under the 2006 EIP were based in part on a member s experience and on each member s responsibilities as assigned by the Board of Directors.

The Board of Directors also established share ownership guidelines for directors applicable both to personally-acquired shares and shares acquired through the 2006 EIP. In general, absent difficult personal financial circumstances, the Board of Directors encourages each director in office at least one year to hold a position in Company shares equal to at least 50% of a director s annual director s fees. At December 31, 2008, all eligible directors and all directors as a group significantly exceeded this ownership position. In addition, the Human Resources Committee encourages directors to retain all shares granted under the 2006 EIP. At December 31, 2008, the Company s directors retained 100% of their vested 2006 EIP restricted shares.

Table of Contents

The table below provides information on 2008 compensation for directors who served in 2008.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)(2)	Option Awards ($)(1)(3)	All Other Compensation ($)	Total ($)
Cassandra J. Francis	$ 4,000	$ 38,264	$ 25,080	$ 0	$ 67,344
John M. Hausmann, C.P.A.	$ 8,000	$ 140,960	$ 33,824	$ 0	$ 182,784
Sherwin R. Koopmans	$ 7,200	$ 98,672	$ 30,277	$ 0	$ 136,149
Joseph A. Schudt	$ 4,000	$ 234,934	$ 41,707	$ 0	$ 280,641
Terry R. Wells	$ 7,200	$ 112,768	$ 31,459	$ 0	$ 151,427
Glen R. Wherfel, C.P.A.	$ 4,000	$ 88,100	$ 29,390	$ 0	$ 121,490

(1) The amounts set forth in the Stock Awards column and the Option Awards column reflect the dollar amount recognized for financial statement reporting purposes for the year ended December 31, 2008 in accordance with FAS 123(R).

(2) Each current non-employee director received a restricted stock award on September 5, 2006, for the following number of shares: 10,000 to Ms. Francis, 40,000 to Mr. Hausmann, 28,000 to Mr. Koopmans, 40,000 to Mr. Schudt, 32,000 to Mr. Wells, and 25,000 to Mr. Wherfel. These awards vest ratably in five equal annual installments commencing on December 15, 2006. In addition, Ms. Francis received a restricted stock grant of 1,000 shares on December 14, 2007, of which 400 shares vested on the grant date, 200 shares vested on December 15, 2008, and 200 shares will vest on December 15, 2009 and 2010.

(3) Each current non-employee director received a stock option award on September 5, 2006 with an exercise price of $17.62 for the following number of shares: 10,000 to Ms. Francis, 40,000 to Mr. Hausmann, 28,000 to Mr. Koopmans, 40,000 to Mr. Schudt, 32,000 to Mr. Wells, and 25,000 to Mr. Wherfel. These awards vest ratably in five equal annual installments commencing on December 15, 2006. In addition, Ms. Francis received a grant of 1,000 stock options on December 14, 2007, of which 400 shares vested on the grant date, 200 shares vested on December 15, 2008, and 200 shares will vest on December 15, 2009 and 2010. On February 26, 2008, each director received a grant of 38,664 stock options in lieu of cash fees for service provided from March through December 2008. These awards vested in equal installments on March 15, 2008, June 15, 2008, September 15, 2008, and December 15, 2008.

The table below shows each current non-employee director s outstanding equity awards as of December 31, 2008.

Name	Stock Awards	Option Awards Exercisable	Option Awards Unexercisable
Cassandra J. Francis	4,400	45,264	4,400
John M. Hausmann, C.P.A	16,000	62,664	16,000
Sherwin R. Koopmans	11,200	55,464	11,200
Joseph A. Schudt	16,000	62,664	16,000
Terry R. Wells	12,800	57,864	12,800
Glen R. Wherfel, C.P.A	10,000	53,664	10,000

Attendance at Annual Meetings of Stockholders

Although the Company does not have a formal written policy regarding director attendance at annual meetings of stockholders, directors are requested to attend these meetings absent unavoidable scheduling conflicts. All of the Company s current directors attended the 2008 Annual Meeting of Stockholders.

COMMUNICATIONS WITH THE BOARD OF DIRECTORS

Any stockholder who wishes to contact the Board of Directors or an individual director may do so by writing to the Board of Directors or the individual director care of, BankFinancial Corporation, 15W060 North Frontage Road, Burr Ridge, Illinois 60527, Attention: James J. Brennan, Secretary. Each communication received will be reviewed by the Secretary and distributed to the Board of Directors or the individual director, as appropriate, depending on the facts and circumstances outlined in the communication. The Secretary may attempt to handle an inquiry directly or forward a communication to another employee of the Company for response. The Secretary also has the authority not to forward a communication to the Board of Directors or an individual director if it is primarily commercial in nature, relates to an improper or irrelevant topic, or is unduly hostile, threatening, illegal or otherwise inappropriate.

Table of Contents

Transactions with Certain Related Persons

Neither the Bank nor the Company currently extends credit to its executive officers and directors or any organization considered to be a related interest or affiliate under applicable federal law, and no such loans were outstanding as of December 31, 2008. The Bank s Professional Responsibility Policy provides that no director or executive officer (as defined by the Bank s Board of Directors) may provide goods or services to the Bank or an affiliate (which includes the Company) unless approved by the disinterested majority of the Board of Directors after full disclosure and it is determined that the arrangement is fair and appropriate. In addition, all transactions between the Bank or its affiliates and a director or executive officer must be conducted on an arm s length basis, comply with all applicable laws and regulations and be on terms that are no more favorable to the director or executive officer than those afforded to similarly situated customers and vendors.

RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Company s Audit Committee has engaged Crowe Horwath LLP to audit the financial statements of the Company for the year ended December 31, 2009, subject to the ratification of the engagement by the Company s stockholders. A representative of Crowe Horwath is expected to attend the Annual Meeting and will have the opportunity to make a statement, if he or she so desires, as well as to respond to appropriate questions that may be asked by a stockholder. If the appointment of the independent registered public accounting firm is not ratified, the matter of the appointment of the independent registered public accounting firm will be considered by the Company s Audit Committee.

The Board of Directors recommends a vote FOR the ratification of the engagement of Crowe Horwath LLP as the Company s independent registered public accounting firm for the year ending December 31, 2009.

Accounting Fees and Services

Set forth below is certain information concerning aggregate fees billed for professional services rendered by Crowe Horwath LLP during the years ended December 31, 2008 and 2007:

Audit Fees. The aggregate fees billed to the Company by Crowe Horwath for professional services rendered by Crowe Horwath for the audit of the Company s annual financial statements and internal controls, review of the financial statements included in the Company s Quarterly Reports on Form 10-Q and services that are normally provided by Crowe Horwath in connection with statutory and regulatory filings and engagements were $362,500 and $360,090 during the years ended December 31, 2008 and 2007, respectively.

Audit Related Fees. The aggregate fees billed to the Company by Crowe Horwath for assurance and related services rendered by Crowe Horwath that are reasonably related to the performance of the audit of and review of the financial statements and that are not already reported in Audit Fees above, were $23,907 and $33,100 during the years ended December 31, 2008 and 2007, respectively. The 2008 and 2007 fees were billed to the Company for services related to the Company s Dividend Reinvestment Plan, 2006 Equity Incentive Plan, ESOP and the Bank s 401(k) Plan.

Tax Fees. The aggregate fees billed to the Company by Crowe Horwath for professional services rendered by Crowe Horwath for tax consultations and tax compliance were $27,400 and $23,700 during the years ended December 31, 2008 and 2007, respectively.

All Other Fees. There were no fees billed to the Company by Crowe Horwath during the years ended December 31, 2008 and 2007, respectively, that are not described above.

Audit Committee Pre-Approval Policy

The Audit Committee pre-approves all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by Crowe Horwath, subject to the de minimus exceptions for

Table of Contents

non-audit services described in Section 10A(i)(1)(B) of the Securities Exchange Act of 1934, as amended, which are approved by the Audit Committee prior to the completion of the audit. The Audit Committee pre-approved 100% of the audit related fees and tax fees described above during the years ended December 31, 2008 and 2007.

STOCKHOLDER PROPOSALS

In order to be eligible for inclusion in the proxy materials for next year s annual meeting of stockholders, any stockholder proposal to take action at such meeting must be received at BankFinancial Corporation s executive office, 15W060 North Frontage Road, Burr Ridge, Illinois 60527, no earlier than December 21, 2009 and no later than 5:00 P.M., Chicago, Illinois Time, on January 20, 2010. Any such proposals shall be subject to the requirements of the proxy rules adopted under the Securities Exchange Act of 1934, as amended, and the Company s Bylaws.

ADVANCE NOTICE OF BUSINESS TO BE CONDUCTED AT AN ANNUAL MEETING

The Company s Bylaws provide an advance notice procedure for certain business, or nominations to the Board of Directors, to be brought before an annual meeting of stockholders. In order for a stockholder to properly bring business before an annual meeting, or to propose a nominee for election to the Board of Directors, the stockholder must give written notice to the Secretary of the Company not earlier than the 150th day nor later than 5:00 P.M., Chicago, Illinois Time, on the 120th day prior to the first anniversary of the date of mailing of the notice for the preceding year s annual meeting; provided, however, that in the event that the date of the annual meeting is advanced or delayed by more than 30 days from the first anniversary of the date of the preceding year s annual meeting, notice by the stockholder to be timely must be so delivered not earlier than the 150th day prior to the date of such annual meeting and not later than 5:00 P.M., Chicago, Illinois Time, on the later of the 120th day prior to the date of such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made. The notice must include:

As to each individual whom the stockholder proposes to nominate for election or re-election as a director,

the name, age, business address and residence address of such individual;

the class, series and number of any shares of stock of BankFinancial Corporation that are beneficially owned by such individual;

the date such shares were acquired and the investment intent of such acquisition; and

all other information relating to such individual that is required to be disclosed in solicitations of proxies for election of directors in an election contest (even if an election contest is not involved), or is otherwise required, in each case pursuant to Regulation 14A (or any successor provision) under the Securities Exchange Act of 1934, as amended, and the rules thereunder (including such individual s written consent to being named in the Proxy Statement as a nominee and to serving as a director if elected);

As to any other business that the stockholder proposes to bring before the meeting, a description of such business, the reasons for proposing such business at the meeting and any material interest in such business of such stockholder and any Stockholder Associated Person (as defined in the Company s Bylaws), individually or in the aggregate, including any anticipated benefit to the stockholder and the Stockholder Associated Person therefrom;

As to the stockholder giving the notice and any Stockholder Associated Person, the class, series and number of all shares of stock of the Company which are owned by such stockholder and by such Stockholder Associated Person, if any, and the nominee holder for, and number of, shares owned beneficially but not of record by such stockholder and by any such Stockholder Associated Person;

Table of Contents

As to the stockholder giving the notice and any Stockholder Associated Person described above, the name and address of such stockholder, as they appear on the Company s stock ledger and current name and address, if different, and of such Stockholder Associated Person; and

To the extent known by the stockholder giving the notice, the name and address of any other stockholder supporting the nominee for election or re-election as a director or the proposal of other business on the date of such stockholder s notice.

Nothing in this Proxy Statement shall be deemed to require the Company to include in its Proxy Statement and proxy relating to an annual meeting any stockholder proposal that does not meet all of the requirements for inclusion established by the Securities and Exchange Commission in effect at the time such proposal is received.

Advance written notice for certain business, or nominations to the Board of Directors, to be brought before the next annual meeting of stockholders must be given to the Company no earlier than December 21, 2009 and no later than 5:00 P.M., Chicago, Illinois Time, on January 20, 2010. If notice is received before December 21, 2009 or after 5:00 P.M., Chicago, Illinois Time, on January 20, 2010, it will not be considered timely, and the Company will not be required to present the matter at the next annual meeting of stockholders.

OTHER MATTERS

The Board of Directors is not aware of any business to come before the Annual Meeting other than the matters described above in the Proxy Statement. However, if any other matters should properly come before the Annual Meeting, it is intended that the holders of the proxies will act as determined by a majority vote of those present and voting.

MISCELLANEOUS

The cost of solicitation of proxies will be borne by the Company. The Company will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy materials to the beneficial owners of common stock. The Company has also made arrangements with Laurel Hill Advisory Group to assist it in soliciting proxies and has agreed to pay the firm a fee of $7,500 plus reimbursable out-of-pocket expenses and telephone solicitation fees. In addition to solicitations by mail, directors, officers and regular employees of the Company and its subsidiaries may solicit proxies personally or by telephone, e-mail, the Internet, letter or facsimile without additional compensation.

A COPY OF THE COMPANY S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2008 WILL BE FURNISHED WITHOUT CHARGE TO STOCKHOLDERS AS OF THE RECORD DATE UPON WRITTEN REQUEST TO BANKFINANCIAL CORPORATION, 15W060 NORTH FRONTAGE ROAD, BURR RIDGE, ILLINOIS 60527, ATTN: JAMES J. BRENNAN, SECRETARY.

BY ORDER OF THE BOARD OF DIRECTORS

James J. Brennan
Secretary

Burr Ridge, Illinois

May 20, 2009

36

Table of Contents

APPENDIX A

BANKFINANCIAL CORPORATION

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

COMMITTEE CHARTER

(Adopted by the Board of Directors on December 22, 2004)

I. PURPOSE OF THE AUDIT COMMITTEE

The Audit Committee shall be directly responsible for the appointment and dismissal, compensation, and oversight of the Company s Internal Auditor and independent auditor, and may not delegate any of such responsibilities to others. The Committee shall assist the Board in its oversight of:

The accuracy and completeness of the Company s financial statements and other significant written financial information provided by the Company to any regulatory organization or the public in compliance with all applicable laws and regulations;

The Company s auditing, accounting and financial reporting processes;

The Company s systems of internal controls regarding asset/liability management, lending, finance, deposit services and other risk exposures;

The Company s compliance with legal and regulatory requirements;

The retention and dismissal of the independent auditor as well as the review of the independent auditor s qualifications, engagements, compensation and performance;

The performance of the Company s internal audit function;

The adequacy of this charter and recommend any changes to the Board based on the advice of outside counsel concerning the current standards applicable to publicly-held corporate Audit Committees; and,

The assessment of the Committee s operational performance on an annual basis, with the assistance of its outside counsel, the independent auditor or other consultants as it deems appropriate. The Committee will provide its self-assessment and recommendations for any changes to the Board. The Committee shall also recommend any changes to its allocation of resources resulting from its performance self-assessment.

Provide an open avenue of communication among management, the Internal Auditor, the independent auditors, senior management and the Board of Directors.

The Committee does not prepare financial statements on behalf of the Company or perform the Company s audits, and its members are not the Company s auditors and do not certify the Company s financial statements. These functions are performed by the Company s management and independent auditor.

A - 1

Table of Contents

II. MEMBERSHIP

All members of the Audit Committee shall be independent of the Company management and free of any relationship that would compromise their exercise of independent judgment as Committee members. Each member of the Committee must satisfy all applicable qualification and independence requirements set forth in the rules and regulations of applicable regulatory organizations. The Committee shall monitor its continuing compliance with all membership requirements.

The responsibilities of a member of the Committee are in addition to responsibilities as a member of the Board and, accordingly, members receive additional compensation for Committee service.

III. FREQUENCY OF MEETINGS

The Committee shall meet as frequently as necessary but no less than four times annually. The Committee shall also meet at the request of the Chief Executive Officer, the Chief Financial Officer, the Internal Auditor or the independent auditor. The Board of Directors shall designate a Chairperson of the Committee. The Committee Chairperson shall approve an agenda in advance of each meeting. A majority of the members of the Committee shall constitute a quorum. The Committee shall maintain minutes or other records of its meetings and activities.

The Committee shall, through its Chairperson, report regularly to the Board following the meetings of the Committee, addressing the matters designated by this Charter and such other related matters as the Committee may deem appropriate.

IV. AUTHORITY

The Audit Committee may conduct or authorize investigations into any matters within the scope of this Charter. The Committee may also take any other action permitted by applicable laws, rules and regulations necessary to accomplish any action authorized by this charter.

The Committee may conduct meetings in executive session, with or without management, the Internal Auditor or the independent auditor (in each case, either individually or jointly) to effect the appropriate environment of communication and coordination for the Committee s purposes and responsibilities pursuant to this Charter.

The Committee may request reports from the Chief Executive Officer or Chief Financial Officer. The Committee may also retain (and has the sole discretion to determine the funding for) experts to advise or assist it, including outside counsel, accountants, financial analysts or others.

V. SCOPE OF COMMITTEE RESPONSIBILITIES

The scope of Committee responsibilities is as follows:

A. Financial Reporting Processes

In consultation with the Internal Auditor and the independent auditors, review the accuracy and completeness of the Company s financial reporting processes, both internal and external, in compliance with all applicable laws and regulations. The review should include the adequacy and effectiveness of the accounting and financial controls of the Company and any recommendations by the independent or internal auditor for improvements or particular areas where new or more detailed controls or procedures are desirable;

Establish regular and separate systems of reporting to the Committee by management, the Internal Auditor and the independent auditor regarding any significant judgments or assumptions made in management s preparation of the financial statements and the appropriateness of such judgments;

A - 2

Table of Contents

Inquire of management, Internal Auditor and the independent auditors about significant risks or exposures involving accounting policies, internal controls or compliance matters and assess the steps management has taken to minimize such risks;

Periodically consult with the Internal Auditor and the independent auditors without the presence of management about the system of internal controls and the completeness and accuracy of the Company s financial statements;

Receive written representations from management as to the integrity of the Company s internal controls and financial reporting systems and the conformity of the Company s financial statements with generally accepted accounting principles and applicable regulatory accounting principles;

Review any significant disagreement among management, the Internal Auditor and the independent auditors in connection with the preparation of the financial statements;

Consider and approve, if appropriate, material changes to the Company s accounting and auditing principles and practices as needed or as recommended by management, the Internal Auditor or the independent auditors.

B. Conduct of Internal Auditing

Review the internal audit function of the Company, including the annual audit plan as revised to incorporate adjustments due to changes in the business of the Company or arising from the cycle of internal controls review;

Review with the Internal Auditor and the independent auditors the coordination of audit efforts to assure completeness of coverage, reduction of redundant efforts and the effective use of audit resources;

Review the appointment, replacement, reassignment or dismissal of the Internal Auditor, the sufficiency of resources dedicated to the internal audit function and the independence of the Internal Auditor and internal audit function;

Review internal audit reports and management s responses thereto;

Receive written representation from the Internal Auditor that there were no significant difficulties encountered during the course of internal audits, including any restrictions on the scope of their work or access to required information;

Review the Internal Audit Division s compliance with the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing.

C. Conduct of Independent Auditing

Subject to ratification by shareholders, the Audit Committee shall have the sole authority to appoint or replace the independent auditors. The Audit Committee shall be directly responsible for the compensation of the independent auditors (for both the independent audit and approved non-audit services). The independent auditors shall report directly to the Audit Committee;

Subject to the prohibitions in Exhibit A, approve all audit and non-audit services to be performed by the independent auditors prior to the performance of that work (including all fees and expenses);

Review the qualifications and experience of senior members of the independent audit team;

Table of Contents

Review and discuss with the independent auditors all significant relationships the independent auditors have with the Company to confirm independence. The Audit Committee shall also approve the hiring of employees or former employees of the independent auditor;

Review with the independent auditor any problems or difficulties in connection with the independent audit and management s response, review the independent auditor s attestation and report on management internal control report, and hold timely discussions with the independent auditors regarding the following: (1) all critical accounting policies and practices; (2) all alternative treatments of financial information within generally accepted accounting principles or regulatory accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatment, and the treatment preferred by the independent auditor; (3) other material written communications between the independent auditor and management, including, but not limited to, the management letter and schedule of unadjusted differences; and (4) an analysis of the auditor s judgment as to the quality of the Company s accounting principles, discussing significant reporting issues and judgments made in connection with the preparation of the Company s financial statements;

Obtain and review annually a report by the independent auditor describing (1) the auditing firm s internal quality control procedures and (2) any material issues raised by its most recent quality control review or investigation within the preceding five years and steps taken to resolve those issues.

D. Conduct of Legal & Regulatory Compliance Management

Review the Company s Code of Ethics & Business Conduct and recommend any changes or additions thereto;

Establish procedures whereby (1) officers and associates can confidentially and anonymously submit to the Committee concerns or issues regarding the Company s accounting or auditing principles and practices and (2) the tracking of the receipt, retention and treatment of such complaints is effected by the Internal Audit Division for direct reporting to the Committee;

Review the effectiveness of the Company s regulatory compliance program, including any changes to policies or practices recommended by management, the Internal Auditor, the independent auditors or outside counsel;

Review all regulatory examination reports, management responses and any matters concerning resolution activities that the Internal Auditor believes appropriate for the Committee s attention;

Review with the Company s outside legal counsel any legal matters that may materially affect the Company s financial statements or public filings and reports;

Review related party transactions consistent with all regulatory requirements, including the procedures with respect to expense account management and use of corporate assets by directors, officers and associates;

At least annually, assess any emerging accounting or regulatory issues that may have a material effect on the Company s financial statements or public filings and reports in the future.

Table of Contents

E. Public Filings & Reports

Review the Company s quarterly and annual SEC filings, including the financial statements, Management Discussion & Analysis information and management certifications with the Chief Executive Officer, Chief Financial Officer, the Internal Auditor and the independent auditors;

Review earnings press releases and information provided to analysts and rating agencies;

Review reports or other financial information, as deemed necessary and appropriate, prior to submission to the applicable regulatory organization or to the public;

Submit an annual report of the Committee to shareholders in the Company s Proxy Statement as required by the U.S. Securities and Exchange Commission.

VI. CONCLUSION

The Committee is to serve as an independent and objective party to monitor the Company s financial reporting process and system of internal controls on behalf of the Board and shareholders. While maintaining its independence and integrity at all times, the Committee must also provide an open avenue of communication among management, the Internal Auditor, the independent auditors and the Board of Directors to properly fulfill its mission.

EXHIBIT A PROHIBITED NON-AUDIT SERVICES

The following services may not be provided by the independent auditor contemporaneously with the audit:

Bookkeeping or other services related to the accounting records or financial statements of the Company;

Financial information systems design and implementation;

Appraisal or valuation services, fairness opinions, or contribution-in-kind reports;

Actuarial services;

Internal audit outsourcing services;

Management functions or human resources;

Broker or dealer, investment advisor, or investment banking services;

Legal services and expert services unrelated to the audit;

Any other service that the Public Company Accounting Oversight Board determines is impermissible.

Table of Contents

APPENDIX B

BANKFINANCIAL CORPORATION

CORPORATE GOVERNANCE & NOMINATING COMMITTEE

OF THE BOARD OF DIRECTORS

COMMITTEE CHARTER

(Adopted by the Board of Directors on December 22, 2004)

I. PURPOSE OF THE COMMITTEE

The Corporate Governance & Nominating Committee shall be directly responsible for recruitment and evaluation of incumbent and new candidates for election to the Board of Directors.

II. MEMBERSHIP

The Board shall appoint the members of the Corporate Governance & Nominating Committee annually. All members of the Committee shall be independent of the Company s management and free of any relationship that would compromise their exercise of independent judgment as Committee members. Directors eligible for re-nomination during the current calendar year are not eligible for appointment as members of the Committee for the current year. Each member of the Committee must satisfy all applicable qualification and independence requirements set forth in the rules and regulations of applicable regulatory organizations.

III. FREQUENCY OF MEETINGS

The Committee shall meet as frequently as necessary but no less than annually. The Committee shall also meet at the request of the Chief Executive Officer or a majority of the Board of Directors. The Board of Directors shall designate a Chairperson of the Committee. The Committee Chairperson shall approve an agenda in advance of each meeting. A majority of the members of the Committee shall constitute a quorum. The Committee shall maintain minutes or other records of its meetings and activities.

The Committee shall, through its Chairperson, report regularly to the Board following the meetings of the Committee, addressing the matters designated by this Charter and such other related matters as the Committee may deem appropriate.

IV. AUTHORITY

The Committee may conduct or authorize investigations into any matters within its scope of this Charter. The Committee may also take any other action permitted by applicable laws, rules and regulations necessary to accomplish any action authorized by this charter.

The Committee may conduct meetings in executive session with members of the Board of Directors or new candidates (in each case, either individually or jointly) to effect the appropriate environment of communication and coordination for the Company s control environment.

The Committee may request reports from the Chief Executive Officer or General Counsel. The Committee may also retain (and determine the funding for) experts to advise or assist it, including outside counsel, search firms or other advisors, and the Company must provide sufficient funding for any such assistance.

B - 1

Table of Contents

V. SCOPE OF COMMITTEE RESPONSIBILITIES

The scope of Corporate Governance & Nominating Committee responsibilities is as follows:

A. Board of Directors Candidate Evaluation

Determine whether candidates meet the minimum qualifications for election pursuant to the Company s Charter, Section 1.09 of the Company s Bylaws and all applicable laws and regulations to which the Company is subject, including the determination whether an existing or proposed Board member meets all standards of independence established by applicable regulatory organizations;

Determine whether the background, experience and expertise of any candidate to the Board of Directors is in the long-term interests of shareholders. In its sole discretion, the Committee may consider the current composition of the Board of Directors and its Committees, the number of directors meeting all independence standards imposed by applicable regulatory organizations, present and future business activities and plans, the representation of the diverse communities and geographies served by the Company and any other factors the Committee deems appropriate.

B. Corporate Governance Compliance

Facilitate and coordinate all meetings of independent directors required by all regulatory organizations. The Committee may appoint one or more independent directors as liaisons to non-independent directors, management or shareholders as it deems appropriate;

Coordinate and report to the Board of Directors an annual evaluation of the Board s performance;

Review director compensation and recommend any changes to the Board of Directors;

Review the suitability of this Charter and the Company s corporate governance practices and recommend any changes to the Board of Directors;

At least annually, assess any emerging legal or regulatory issues that may have a material effect on the Company s corporate governance policies, practices or reports in the future.

VI. CONCLUSION

The Committee is to serve as an independent and objective party to monitor the Company s corporate governance practices and facilitate the effective governance of the Company based on its evaluation of the composition and conduct of the Board of Directors.

Table of Contents

APPENDIX C

BANKFINANCIAL CORPORATION

HUMAN RESOURCES COMMITTEE OF THE BOARD OF DIRECTORS

COMMITTEE CHARTER

(Adopted by the Board of Directors on January 30, 2008)

I. PURPOSE OF THE COMMITTEE

The Human Resources Committee shall be directly responsible for the execution of the Board s responsibilities with respect to compensation, performance evaluation and succession planning for the Company s Chief Executive Officer and principal executive officers. (The term principal executive officers are those individuals covered by Section 16 of the Securities and Exchange Act of 1934.) The Committee is also responsible for the submission of the annual report on executive compensation to the Board of Directors for inclusion into the Company s Annual Proxy Statement.

II. MEMBERSHIP

The Board shall appoint the members of the Committee annually. All members of the Committee shall be independent of the company management and free of any relationship that would compromise their exercise of independent judgment as Committee members. Each member of the Committee must satisfy all applicable qualification and independence requirements set forth in the rules and regulations of applicable regulatory organizations.

III. FREQUENCY OF MEETINGS

The Committee shall meet as frequently as necessary but no less than annually. The Committee shall also meet at the request of the Chief Executive Officer or a majority of the Board of Directors. The Board of Directors shall designate a Chairperson of the Committee. The Committee Chairperson shall approve an agenda in advance of each meeting. A majority of the members of the Committee shall constitute a quorum. The Committee shall maintain minutes or other records of its meetings and activities.

The Committee shall, through its Chairperson, report regularly to the Board following the meetings of the Committee, addressing the matters designated by this Charter and such other related matters as the Committee may deem appropriate.

IV. AUTHORITY

The Committee may conduct or authorize investigations into any matters within its scope of this Charter. The Committee may also take any other action permitted by applicable laws, rules and regulations necessary to accomplish any action authorized by this Charter.

The Committee may conduct meetings in executive session with members of the Board of Directors or the principal executive officers (in each case, either individually or jointly) to effect the appropriate environment of communication and coordination for the Company s control environment.

The Committee may request reports from the Chief Executive Officer, Chief Financial Officer, General Counsel and Executive Vice President Human Resources. The Committee may also retain (and determine the funding for) experts to advise or assist it, including outside counsel, search firms or other advisors, and the Company must provide sufficient funding for any such assistance.

V. SCOPE OF COMMITTEE RESPONSIBILITIES

The scope of Human Resources Committee responsibilities is as follows:

A. Executive Compensation

Review and approve base compensation, cash incentive compensation, equity incentive compensation, non-standard employment benefits / perquisites, and employment or severance agreements for the Chief Executive Officer and principal executive officers.

B. Management Sufficiency

Review annually the current state of management sufficiency and succession planning within the Company for key risk areas and report any recommended changes to the Board of Directors.

C. Reporting

Submit a report to the Board on executive compensation for inclusion in the Company s Annual Proxy Statement as required by all applicable laws and regulations of regulatory organizations;

Review the suitability of this Charter and recommend any changes to the Board of Directors;

At least annually, assess any emerging accounting, legal or regulatory issues that may have a material effect on the Company s executive compensation practices or reports in the future.

VI. CONCLUSION

The Committee is to serve as an independent and objective party to monitor the Company s corporate governance practices relating to human resources matters and facilitate the effective oversight of executive compensation, management sufficiency and succession planning of the Company. The Committee will meet periodically throughout the year to execute its responsibilities and issue reports of its activities for use by the Board of Directors and Shareholders.

Table of Contents

000004

000000000.000000 ext 000000000.000000 ext
000000000.000000 ext 000000000.000000 ext
000000000.000000 ext 000000000.000000 ext

MR A SAMPLE
DESIGNATION (IF ANY)
ADD 1

ADD 2

ADD 3

ADD 4

ADD 5

ADD 6

Electronic Voting Instructions

You can vote by Internet or telephone!
Available 24 hours a day, 7 days a week!

Instead of mailing your proxy, you may choose one of the two voting methods outlined below to vote your proxy.

VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR.

Proxies submitted by the Internet or telephone must be received by 1:00 a.m., Central Time, on June 30, 2009.

Vote by Internet

Log on to the Internet and go to **www.investorvote.com**

Follow the steps outlined on the secured website.

Vote by telephone

Call toll free 1-800-652-VOTE (8683) within the United States, Canada & Puerto Rico any time on a touch tone telephone. There is **NO CHARGE** to you for the call.

Follow the instructions provided by the recorded message.

Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas.

X

q IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. q

A Proposals The Board of Directors recommends a vote FOR all the nominees listed and FOR Proposal 2.

1. To elect two directors for a three-year term and until their successors are duly elected and qualify:

.. **Mark here to vote FOR all nominees** **01 - Cassandra J. Francis** **02 - Sherwin R. Koopmans** **03 - Terry R. Wells**

+

01 02 03

.. **For All EXCEPT** - To withhold a vote for one or more nominees, mark the box to the left and the corresponding numbered box(es) to the right.

.. .. ..

.. **Mark here to WITHHOLD vote from all nominees**

	For	Against	Abstain	
2. To ratify the engagement of Crowe Horwath LLP as the independent registered public accounting firm of the Company for the year ending December 31, 2009.	..	..	..	**In their discretion, the proxies are authorized to vote on any other business that may properly come before the Annual Meeting or any adjournments or postponements thereof as permitted by law.**

B Non-Voting Items

Change of Address Please print new address below.

C Authorized Signatures This section must be completed for your vote to be counted. Date and Sign Below

The undersigned acknowledge(s) receipt from the Company, prior to the execution of this proxy, of a Notice of the Annual Meeting, a Proxy Statement and the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

Please sign exactly as your name(s) appear(s) on this card. When signing as attorney, executor, administrator, trustee or guardian, please give full title. If shares are held jointly, each joint holder should sign. A proxy executed by a corporation or other legal entity should be signed in its name by an authorized officer.

Date (mm/dd/yyyy) Please print date below. Signature 1 Please keep signature within the box. Signature 2 Please keep signature within the box.

/ /

Table of Contents

q IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. q

Our Proxy Statement for the 2009 Annual Meeting and our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, together with the accompanying form of proxy, are available online at www.sendd.com/EZProxy/?project_id=311. Directions to the Annual Meeting are available in the Proxy Statement.

Proxy BANKFINANCIAL CORPORATION

Proxy for Annual Meeting of Stockholders

June 30, 2009

THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS OF BANKFINANCIAL CORPORATION.

The undersigned, whose signature(s) appear(s) on the reverse side of this proxy, hereby appoint(s) Joseph A. Schudt, John M. Hausmann and Glen R. Wherfel and each of them, with full power of substitution, acting by a majority of those present and voting, or if only one is present and voting, then that one, to act as attorneys and proxies for the undersigned to vote all shares of common stock of BankFinancial Corporation (the Company) which the undersigned is entitled to vote at the Annual Meeting of Stockholders of the Company (the Annual Meeting), to be held on Tuesday, June 30, 2009 at 11:00 a.m., Chicago, Illinois Time, at the Holiday Inn Chicago-Willowbrook-Hinsdale, 7800 Kingery Hwy (Route 83), Willowbrook, Illinois, and any adjournments or postponements thereof, with all the powers the undersigned would possess if present.

THIS PROXY WILL BE VOTED AS DIRECTED, BUT IF NO INSTRUCTIONS ARE SPECIFIED, THIS PROXY WILL BE VOTED FOR ALL DIRECTOR NOMINEES LISTED ON THE REVERSE SIDE OF THIS PROXY AND FOR THE RATIFICATION OF THE ENGAGEMENT OF CROWE HORWATH LLP AS THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM OF THE COMPANY. THE UNDERSIGNED HEREBY REVOKES ANY PROXY OR PROXIES HERETOFORE GIVEN TO VOTE SUCH SHARES AT SAID MEETING OR AT ANY ADJOURNMENTS OR POSTPONEMENTS THEREOF.

This proxy continues and must be signed on the reverse side.

Thank you for voting.