

FEDERAL TRUST CORP
Form PRE 14A
April 21, 2006
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SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

FEDERAL TRUST CORPORATION

(Name of Registrant as Specified in its Charter)

NOT APPLICABLE

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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- No fee required
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
- Fee paid previously with preliminary materials
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by Registration Statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

Federal Trust Corporation

(4) Date Filed:

April 21, 2006

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FEDERAL TRUST CORPORATION

_____, 2006

Dear Fellow Shareholders:

On behalf of the Board of Directors and management of Federal Trust Corporation, you are invited to attend our 2006 Annual Meeting of Shareholders (the Annual Meeting) to be held at the Springhill Suites, 201 North Towne Road, Sanford, Florida 32771, on Friday, May 26, 2006, at 10:00 a.m. The attached Notice of Annual Meeting of Shareholders and Proxy Statement describe the formal business to be transacted at the Annual Meeting.

The business to be conducted at the Annual Meeting consists of the election of two directors and the ratification of the appointment of independent auditors for the year ending December 31, 2006. The Board of Directors of Federal Trust has determined that the matters to be considered at the Annual Meeting are in the best interests of Federal Trust and its stockholders. Your Board of Directors unanimously recommends a vote FOR each matter being proposed by Federal Trust, including the election of *Kenneth W. Hill* and *Eric J. Reinhold* as directors.

Even if you plan to attend the meeting, please sign, date and return the GREEN Proxy Card in the enclosed envelope immediately. This will not prevent you from voting in person at the Annual Meeting, but will assure that your vote is counted if you are unable to attend the Annual Meeting.

A dissident shareholder is contesting Federal Trust's director nominees and is proposing its own director nominee, along with a bylaw proposal. The bylaw proposal was not timely or properly noticed and will not be placed on the agenda for the Annual Meeting. If you receive a Proxy Statement and a White Proxy Card from Keefe Managers, LLC, the Board of Directors would request that you throw away the White Proxy Card, or not vote in favor of Keefe Manager's proposals.

IF YOU PLAN TO ATTEND:

Please note that space limitations make it necessary to restrict attendance to shareholders only. Registration will begin at 9:30 A.M. Each shareholder may be asked to present valid picture identification, such as a driver's license or passport. Shareholders holding stock in brokerage accounts (street name holders) will need to bring a copy of a brokerage statement reflecting stock ownership as of the record date. Cameras, recording devices and other electronic equipment will not be permitted at the Annual Meeting.

Sincerely,

James V. Suskiewich

Chairman of the Board

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FEDERAL TRUST CORPORATION
NOTICE OF THE ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON MAY 26, 2006

The 2006 Annual Meeting of Shareholders of Federal Trust Corporation will be held at Springhill Suites, 201 North Towne Road, Sanford, Florida 32771, on May 26, 2006, at 10:00 a.m. At the Annual Meeting, the following items will be presented and voted upon:

1. The election of two Class I directors to our Board of Directors, each to serve for a three year term;
2. The ratification of the appointment of Hacker, Johnson & Smith, P.A., as our independent auditors for 2006; and
3. The adjournment of the Annual Meeting to solicit additional proxies in the event there are insufficient votes to approve the foregoing proposals.

All shareholders of record as of the close of business on April 14, 2006, are entitled to vote at our Annual Meeting. A copy of our 2005 Annual Report which is not part of our proxy soliciting material, is also enclosed.

It is very important that your shares be represented and voted at our Annual Meeting. Please complete, sign, date, and return the enclosed **GREEN Proxy Card** in the envelope provided, whether or not you expect to attend our Annual Meeting in person.

By Order of the Board of Directors,

James V. Suskiewich
Chairman of the Board

Sanford, Florida

_____, 2006

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PROXY STATEMENT

2006 ANNUAL MEETING OF SHAREHOLDERS

Date, Time, and Place

Friday, May 26, 2006

10:00 a.m.

The Springhill Suites
201 North Towne Road
Sanford, Florida 32771

General Information

This Proxy Statement contains information relating to the Annual Meeting of Shareholders of Federal Trust Corporation (Federal Trust). Through this mailing, your Board of Directors is soliciting proxies for our 2006 Annual Meeting. Our 2005 Annual Report is also enclosed with this Proxy Statement. These documents provide important information about our business, including audited financial statements, and are first being mailed to shareholders on or about April 26, 2006. Unless the context indicates otherwise, all references in this proxy statement to we, us, our, or the Company mean Federal Trust and its subsidiaries, Federal Trust Bank and Federal Trust Mortgage Company.

It is very important that you vote your shares at this year's Annual Meeting. The future of your Company is at stake. Federal Trust has been contacted by representatives of one of our shareholders, Keefe Managers, LLC (Keefe), who have attempted to influence our policies and gain Board representation. One of these representatives initially sought to be appointed as a new director and, after the Board of Directors declined, Keefe and he jointly stated that they would nominate him for election as a director and solicit proxies for his election. Keefe's primary complaint is that it is disappointed with Federal Trust's performance and the make-up of our Board. Despite the complaints and concerns raised by Keefe, Keefe has increased its ownership position from 654,385 shares to 795,385 shares since August 2005. *For the reasons discussed in this Proxy Statement, the Board of Directors is asking that you vote on the proposals appearing on the **GREEN Proxy Card** and **throw away the White Proxy Card** being provided by Keefe.*

Your Board of Directors further sees no valid reason to remove or prohibit individuals who have guided Federal Trust over the last 10 years from serving as directors. Your Board of Directors unanimously supports the Board's nominees Kenneth W. Hill and new nominee Eric J.

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Reinhold - and urges you not to be distracted by the dissident group's efforts. Please sign and date the enclosed GREEN Proxy Card and return it today. Federal Trust needs the support of its shareholders to eliminate this unnecessary disruption to its operations.

Your Board of Directors' primary goal is to enhance the value of your investment in Federal Trust, and it believes it can best accomplish that without the interference of Keefe and its nominee. Accordingly, we strongly urge you to vote AGAINST Keefe's nominee and against its proposed bylaw amendment by simply discarding Keefe's White Proxy Card. You should also be aware that Keefe has not provided Federal Trust with timely notice of its desire to amend our bylaws. Therefore, that matter will not be considered at the Annual Meeting, so we again urge you to throw away the White Proxy Card you may receive from Keefe.

Please also note that Federal Trust is not responsible for the accuracy of information in any proxy materials filed or disseminated by Keefe and its nominee, or any other statement that they may make, including statements regarding Federal Trust.

WHY YOU SHOULD SUPPORT YOUR COMPANY'S NOMINEES

Your Board of Directors, including each of the Board's nominees, is dedicated to maximizing and enhancing stockholder value. It does this by representing ALL shareholders, not any single shareholder. Each director of Federal Trust owes a fiduciary duty to ALL shareholders and must act accordingly. Therefore, we believe that you would not benefit from any single shareholder having its own hand-picked director representing him on the Board. Because your Board acts in the best interests of ALL shareholders, we believe that these hostile actions are unnecessary, disruptive, costly and may delay or impede our efforts to maximize value for all of our stockholders.

The following are just some of the ways your Board of Directors has acted to enhance the value of your investment in Federal Trust:

Business Expansion - Since 1997, we have opened six new branch offices with four more in process that are expected to open over the next 12 months.

Loan Deposit Mix Transformation - Since 2001, we have been concentrating on transforming our lending and deposit mix from that of a traditional savings and loan association to more like a commercial bank.

Stock Appreciation - As illustrated in the Stock Performance Graph on page 3, a stockholder who purchased shares on December 31, 2000, has seen his or her original investment appreciate over 475% through December 31, 2005. This significantly outpaced the SNL Southeast Thrift Index for that period, which appreciated less than 200%.

Dividends - In 2005, Federal Trust paid its shareholders dividends of \$0.15 per share and in 2004, we paid dividends of \$0.09 per share.

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FOR THE REASONS EXPLAINED ABOVE, YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR ITS TWO NOMINEES KENNETH W. HILL AND ERIC J. REINHOLD ON THE GREEN PROXY CARD. PLEASE **DO NOT** RETURN KEEFE S WHITE PROXY CARD.

Federal Trust s stock price has increased substantially beyond a comparable stock index and our performance and growth have improved significantly each year that the current Board and management have been in place.

STOCK PERFORMANCE GRAPH

The following graph compares the yearly percentage change in Federal Trust s cumulative total stockholder s return on our common stock with: (i) the Russell 3000; and (ii) SNL Financial LC s index for southeastern thrifts and thrift holding companies for the years ended December 31, 1999 to 2005, inclusive. The comparisons in this table are set forth as part of the Securities and Exchange Commission s disclosure requirements and are not intended to forecast or be indicative of future performance of our common stock.

<i>Index</i>	<i>Period Ending</i>					
	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05
Federal Trust Corporation	100.00	155.11	183.56	358.40	461.83	578.99
Russell 3000	100.00	88.54	69.47	91.04	101.92	108.16
SNL Southeast Thrift Index	100.00	152.89	179.35	271.98	321.51	292.58

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The graph assumes an initial investment of \$100 at the end of 2000 and the reinvestment of all dividends during the periods indicated.

VOTING

It is important that your shares be represented by proxy or that you be present in person at the Annual Meeting. If you wish to vote by proxy, please complete the enclosed GREEN Proxy Card or voting instruction form and return it, signed and dated, in the enclosed postage-paid envelope. Should you receive a White Proxy Card from Keefe, we would ask that you discard it. Even if you presently intend to attend the Annual Meeting, we request that you also submit a proxy. This will ensure that your shares are voted if you later become unable to attend the Annual Meeting. Proxies solicited by the Board of Directors will be voted in accordance with the directions given therein.

Unless you give other instructions on your GREEN Proxy Card, the persons named as proxy holders on the GREEN Proxy Card will vote in accordance with the recommendations of our Board of Directors.

What is the recommendation of our Board?

The Board recommends that you vote by using the GREEN Proxy Card:

FOR the election of two Class I director nominees *Kenneth W. Hill* and *Eric J. Reinhold*;

FOR the ratification of the appointment of Hacker, Johnson & Smith, P.A., as our independent auditors for 2006; and

FOR the adjournment of the Annual Meeting to solicit additional proxies if there are not sufficient votes to approve any of the above proposals.

The Board urges you to *throw away* the White Proxy Card.

Who is entitled to vote at our meeting and what constitutes a quorum?

Only our common stockholders of record at the close of business on April 14, 2006, the shareholder record date, will be entitled to vote at the Annual Meeting. Record shareholders representing a majority of our outstanding common stock present in person or represented by proxies, constitutes a quorum. The Articles of Incorporation of Federal Trust do not provide for cumulative voting. Shareholders are entitled to one vote for each share owned.

What are the voting rights of our shareholders?

In accordance with Florida law and our Bylaws, our directors will be elected at the Annual Meeting by a plurality of the votes cast. Any other matter on which shareholders vote at the Annual Meeting will be determined by the affirmative vote of a majority of the votes cast.

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The number of shares of our common stock outstanding as of the record date was 9,149,343, held by approximately 404 shareholders in their own name. Each share of common stock entitles its owner to one vote upon each matter which comes before the Annual Meeting. A shareholder may abstain or withhold a vote with respect to any item submitted for shareholder approval. Any withheld votes will be counted as being present for purposes of determining the existence of a quorum, but will be counted as not voting in favor of any proposal brought before the Annual Meeting.

How do I vote?

The manner in which your shares may be voted depends on how your shares are held. If you own shares of record, meaning that your shares of common stock are represented by certificates or book entries in your name so that you appear as a shareholder on the records of our stock transfer agent, a GREEN Proxy Card for voting those shares will be included with this Proxy Statement. You may vote those shares by completing, signing, and returning the GREEN Proxy Card in the enclosed postage pre-paid, pre-addressed envelope.

How do I vote if my Federal Trust shares are held in street name ?

If you own shares in street name in an account at a bank or brokerage firm, we generally cannot mail our proxy materials directly to you. You may instead receive a voting instruction form with this Proxy Statement that you should use to instruct how your shares are to be voted using the GREEN Proxy Card, and you should also vote your shares by completing, signing, and returning the voting instruction form in the envelope provided. Many brokerage firms have arranged for internet or telephonic voting of shares and provide instructions for using those services on the voting instruction form.

If your shares are held by a brokerage firm, under certain circumstances, the brokerage firm may vote your shares. Such entities have authority to vote their customers' shares on certain routine matters, including the election of directors. When a firm votes its customers' shares on routine matters, these shares are also counted for the purpose of establishing a quorum to conduct business at the meeting. A brokerage firm cannot vote its customers' shares on non-routine matters. Accordingly, these shares are not counted as votes against a non-routine matter, but rather not counted at all for such a matter. *There are no items being presented by Federal Trust at this Annual Meeting that are considered non-routine.*

Who can attend our Annual Meeting?

If you own common stock of record, you may attend the Annual Meeting and vote in person, regardless of whether you have previously voted by proxy card. If you own common stock through a brokerage account, you may also attend the Annual Meeting, but in order to vote your shares at the Annual Meeting, you must obtain a legal proxy from the brokerage firm that holds your shares. You should contact your brokerage account representative to learn how to obtain a legal proxy. We encourage you to vote your shares in advance of the Annual Meeting by one of the methods described above, even if you plan on attending the Annual Meeting, so we will be able to determine in advance if a quorum is present. You may change or revoke your proxy at the Annual Meeting in the manner described below even if you have already voted by proxy card.

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Can I change my vote after I return my Proxy Card?

Any shareholder holding common stock of record may revoke a previously granted proxy at any time before it is voted, by delivering to us a written notice of revocation or a duly executed proxy card bearing a later date, or by attending the Annual Meeting and voting in person. Any shareholder holding common stock through a brokerage firm may change or revoke previously given voting instructions by contacting the brokerage firm, or by obtaining a legal proxy from the brokerage firm and voting in person at the Annual Meeting. Again, please vote the proposals being presented on the accompanying GREEN Proxy Card and *throw away* the White Proxy Card.

Who will pay the costs of soliciting proxies on behalf of our Board of Directors?

The cost of soliciting proxies on behalf of Federal Trust and the Board of Directors of the Annual Meeting will be borne by Federal Trust. Proxies may be solicited by directors, officers, or our other employees, in person or by telephone, e-mail, or mail. We are requesting persons and entities holding shares in their names, or in the names of their nominees, to send proxy materials to, and obtain proxies from, such beneficial owners. Those persons and entities will be reimbursed for their reasonable out-of-pocket expenses. Due to the number of our shares that are held in street name, we have retained Regan & Associates, Inc. to aid in the solicitation of proxies for a fee not to exceed \$47,050, including reimbursement of reasonable out-of-pocket expenses. Approximately _____ persons will be used by Regan & Associates, Inc. in such solicitation. Although a precise estimate cannot be made, the total amount currently estimated to that will be spent by the Company in connection with the solicitation of stockholders will be \$110,000, which includes the fee and expenses of Regan & Associates, Inc. and exclude the amount normally expended in the absence of a contested election of directors. Because we are anticipating a proxy fight with Keefe, the estimated fee for Regan & Associates services will be \$47,050.

STOCK OWNERSHIP

The following table contains information concerning the persons and entities know to us to be beneficial owners of 5% or more of the outstanding shares of Federal Trust common stock as of the record date.

Name and Address of

Beneficial Owner	Number of Shares	Percent of Class
James V. Suskiewich 312 W. First Street, Suite 110 Sanford, FL 32771	805,367 ⁽¹⁾	8.60%
Keefe Managers, LLC 374 Park Avenue New York, NY 10152-0139	795,835 ⁽²⁾	8.70%
Estate of Einar Paul Robsham Post Office Box 5183 Cochituate, MA 01778	488,400 ⁽³⁾	5.34%

⁽¹⁾ Includes 199,588 shares held as trustee under Federal Trust's ESOP, 171,035 shares held as trustee under Federal Trust's 401(k) Plan, 1,939 shares held in his spouse's IRA, and 210,587 shares covered under stock options.

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(2) As disclosed in the Schedule 13D/A filed with the Securities and Exchange Commission on March 16, 2006.

(3) As disclosed in the Schedule 13D filed with the Securities and Exchange Commission on June 19, 2000.

PROPOSAL I

ELECTION OF DIRECTORS

The Board of Directors is presently composed of five members and will have six after the Annual Meeting. Our Articles of Incorporation provide that directors are divided into three classes, which serve for staggered three-year terms. This year, two Class I directors have been nominated by our Board.

To the best of our knowledge, the director nominees *Kenneth W. Hill* and *Eric J. Reinhold* being proposed for election are not subject to any agreements with any other person. Both nominees have indicated their willingness to stand for election and to serve, if elected. Should a nominee become unable or unwilling to serve, proxies will be voted for the election of such other person as the Board of Directors may choose to nominate.

Information relating to the business experience, age, and beneficial ownership of our common stock of the director nominee and the continuing directors is described below.

Information Concerning the Company's Director Nominees

CLASS I DIRECTORS

TERM TO EXPIRE IN 2009

Kenneth W. Hill , age 73, has been a director of Federal Trust since 1997 and a director of Federal Trust Bank since 1995. Mr. Hill was a Vice President and Trust Officer of SunBank, N.A., Orlando, Florida, from 1983 through 1995. Mr. Hill resides in Orlando, Florida.	54,000 shares of common stock ⁽¹⁾ 37,485 options to purchase common stock 1.00% of the outstanding common stock
Eric J. Reinhold , age 41, is a <i>newly</i> nominated director for Federal Trust. Mr. Reinhold is a Certified Financial Planner, who has served as President of Academy Planning Group since 2002 and was previously Regional Vice President for Academy Financial, both located in Orlando, Florida. Mr. Reinhold resides in Longwood, Florida.	0 shares of common stock 0 options to purchase common stock 0% of the outstanding common stock

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George W. Foster , age 77, is a retired banker and has been a director of Federal Trust since 1997 and a director of Federal Trust Bank since 1990. From 1990 through 1993, he served as President and Chief Executive Officer of Federal Trust Bank. Mr. Foster resides in Longwood, Florida.	39,802 shares of common stock ⁽¹⁾ 9,600 options to purchase common stock 0.57% of the outstanding common stock
A. George Igler , age 54, was elected to the Board in October, 2001. Mr. Igler serves as the Vice Chairman of the Board for Federal Trust. Since 1992, he has been a principal shareholder of the law firm of Igler & Dougherty, P.A., which concentrates its practice in financial institutions, corporate and securities law. Igler & Dougherty, P.A., has served as Federal Trust's corporate counsel since 1993. Mr. Igler's firm represents a number of private and public financial corporations. Mr. Igler resides in Tallahassee, Florida.	24,268 shares of common stock ^{(1) (3)} 22,178 options to purchase common stock 0.51% of the outstanding common stock

CLASS III DIRECTORS**TERMS EXPIRE IN 2008**

Dr. Samuel C. Certo , age 59, has been a director of Federal Trust since 1997 and a director of Federal Trust Bank since 1996. He is the former Dean and a Professor of Management in the Crummer Graduate School of Business at Rollins College in Winter Park. Since 1986, Dr. Certo has served as a business consultant and has published textbooks in the areas of management and strategic management. Dr. Certo resides in Longwood, Florida.	92,985 shares of common stock ⁽¹⁾ 0 options to purchase common stock 1.06% of the outstanding common stock
James V. Suskiewich , age 58, has been a director of Federal Trust since 1994 and is currently Chairman of the Board. He has served as President and Chief Executive Officer of Federal Trust since July 1996. Since January 1993, he has been Chief Executive Officer and a director of Federal Trust Bank. He was President of Federal Trust Bank from January 1993 to January 2005. Mr. Suskiewich resides in Longwood, Florida.	594,780 shares of common stock ^{(1) (2)} 210,587 options to purchase common stock 8.60% of the outstanding common stock
Directors and executive officers as a group (16 persons)	952,980 shares of common stock ^{(1) (2) (3) (4)} 482,902 options to purchase common stock 14.91% of the outstanding common stock ^{(4) (5)}

⁽¹⁾ Includes shares for which the named person:

has sole voting and investment power;

has shared voting and investment power with a spouse, or

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holds in an IRA or other retirement plan program, unless otherwise indicated in these footnotes.

- (2) Includes 194,588 shares held as trustee under Federal Trust's ESOP; 171,035 shares in Federal Trust's 401(k) Plan over which he has shared voting and investment powers; and 1,939 shares held in his spouse's IRA.
- (3) Includes 6,478 shares held as trustee under Iglar & Dougherty, P.A. 401(k) Profit Sharing Plan, with respect to which Mr. Iglar shares voting and investment power.
- (4) Includes stock and options owned by:

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Name/Age	Position	Years of Service	Number of Shares	Shares Covered by Options	Percentage of Beneficial Ownership
W. Daniel Allen	Bank Director Only	1	0	0	0.00%
Jennifer B. Brodnax	Senior VP/Operations ⁽⁶⁾	18	196,330 ⁽⁷⁾	40,000	2.57%
Brenda K. Carey	Bank Director Only	1	850	0	0.01%
Stephen H. Coover	Bank Director Only	1	1,450	0	0.02%
Stephen C. Green	President & Chief Operating Officer ⁽⁶⁾	4	44,368	47,652	1.00%
A. Stewart Hall, Jr.	Bank Director Only	2	8,000	0	0.04%
Thomas J. Punzak	Treasurer ⁽⁶⁾	13	6,336	20,000	0.03%
Daniel C. Roberts	Senior VP and Chief Credit Officer ⁽⁶⁾	4	42,196	25,000	0.73%
Gregory E. Smith	Executive VP & Chief Financial Officer	2	189,685 ⁽⁸⁾	40,000	0.64%
Thomas P. Spatola	Federal Trust Mortgage Company President	1	0	30,000	0.33%

⁽⁵⁾ Percentage based on 1,402,756 shares, of which 9,149,343 shares were outstanding as of the record date and 442,902 shares covered under stock options.

⁽⁶⁾ Bank officer only.

⁽⁷⁾ Includes 6,275 shares in Federal Trust's Stock Bonus Plan, over which Ms. Brodnax has sole voting and investment power; and 171,035 shares in Federal Trust's 401(k) Plan over which Ms. Brodnax has shared voting and investment powers.

⁽⁸⁾ Includes 171,035 shares in Federal Trust's 401(k) Plan over which Mr. Smith has shared voting and investment powers.

The Board of Directors Recommends that Shareholders Vote FOR

The Election for the Class I Director Nominees.

CORPORATE GOVERNANCE

The Securities and Exchange Commission and the American Stock Exchange (AMEX) have regulations and listing requirements that govern the corporate practices of public companies and AMEX listed companies, such as Federal Trust. The following are highlights concerning certain important aspects of our Corporate Governance program:

All of our directors qualify as independent under the requirements of the Securities and Exchange Commission and the AMEX, except for James V. Suskiewich, our Chief Executive Officer and President.

The Audit Committee, Nominating and Corporate Governance and Compensation Committees are entirely composed of independent directors.

All standing committees have written charters that are reviewed and reassessed annually.

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The Compensation Committee has engaged and utilized an outside compensation consultant to provide the Committee with advice and guidance on Federal Trust's executive compensation and director compensation programs.

Our directors are expected to regularly attend director educational programs.

Shareholder voting is confidential.

In determining whether a director is independent under applicable independence requirements, our Board of Directors considered any transactions and relationships between each director and any member of his immediate family or affiliates and Federal Trust and its subsidiaries and affiliates. Our Board of Directors also examined any transactions and relationships between directors and their affiliates and members of our senior management and any member of their immediate family or affiliates. Since banking is a significant portion of our business, our Board of Directors determined that a director's independence is not affected where Federal Trust Bank and a director have a loan relationship that is performing in accordance with its contractual terms and has not been adversely classified or specially mentioned by the federal bank examiners.

BOARD OF DIRECTORS AND STANDING COMMITTEES

Our Board of Directors conducts its business through meetings of the full Board and through standing committees. During 2005, the Board of Directors held 10 meetings. All of our directors attended at least 75% of the aggregate number of meetings of the Board of Directors and the respective committees on which they served. In addition, our directors are required to attend the Annual Meeting. At last year's Annual Meeting, all of the directors were in attendance.

The Board has four standing committees—the *Executive Committee*, the *Nominating and Corporate Governance Committee*, the *Compensation Committee*, and the *Audit Committee*.

The *Executive Committee* has the authority of the Board of Directors when the Board is not in session. The Executive Committee may exercise all powers of the Board of Directors in the management of the business and affairs of Federal Trust under Florida law. A copy of the Amended and Restated Executive Committee Charter is included with this Proxy Statement as *Exhibit A*. The Executive Committee did not meet in 2005. The Executive Committee consists of *Dr. Samuel Certo (Chairman)*, *A. George Iglar*, and *James V. Suskiewich*.

The *Nominating and Corporate Governance Committee* considers nominees to our Board of Directors and the election of directors of our subsidiaries, as well as ensuring that Federal Trust is in compliance with applicable corporate governance principles. The Committee consists of *George W. Foster (Chairman)*, *Dr. Samuel C. Certo*, and *Kenneth W. Hill*, each of whom is independent under the AMEX rules. The Nominating and Corporate Governance Committee has adopted a charter, a copy of which is included with this Proxy Statement as *Exhibit B*. The Nominating and Corporate Governance Committee met once during 2005.

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The *Compensation Committee* serves with regard to compensation and personnel policies, program and plans, including management development and succession, and to approve employee compensation and benefit programs. The Compensation Committee consists of A. George Iglar (Chairman), Dr. Samuel C. Certo, George W. Foster, and Kenneth W. Hill. The Compensation Committee met seven times during 2005. The Compensation Committee has adopted a charter. A copy of the Amended and Restated Compensation Committee Charter is included with this Proxy Statement as *Exhibit C*. All of the members of the Compensation Committee are considered independent under the AMEX rules.

The *Audit Committee* has adopted a formal charter, pursuant to which the committee reviews Federal Trust's auditing, accounting, financial reporting and internal control functions, recommends our independent auditor, and reviews its services. The Audit Committee consists of Kenneth W. Hill (Chairman), Dr. Samuel C. Certo and George W. Foster. The Audit Committee met six times during 2005. The Audit Committee does not have a designated financial expert. Based on the size and scope of Federal Trust's operations, its geographic location, the experience of our Board, and the difficulties inherent in recruiting a financial expert, the Board has determined that it is not necessary to have an Audit Committee financial expert at this time. A copy of the Amended and Restated Audit Committee Charter is included with this Proxy Statement as *Exhibit D* and is posted on our website at www.federaltrust.com. The Board of Directors believes that the members of the Audit Committee are all independent under AMEX listing standards.

AUDIT COMMITTEE REPORT

To Our Shareholders:

The Audit Committee oversees Federal Trust's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process, including the system of internal control. The functions of the Audit Committee are focused on three areas:

the adequacy of the Company's internal controls and financial reporting process and the reliability of the Company's financial statements;

the performance of the internal auditors, as well as monitoring their independence; and

the Company's compliance with legal and regulatory requirements.

In fulfilling its oversight responsibilities, the Audit Committee reviewed the audited financial statements in the Annual Report with management, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements.

The Audit Committee reviewed and discussed with Hacker, Johnson & Smith, P.A., the Company's independent registered public accounting firm (who is responsible for expressing an opinion on the conformity of Federal Trust's audited financial statements with generally accepted accounting principles) its judgments as to the quality, not just the acceptability, of the

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Company's accounting principles, and such other matters as are required to be discussed with the Audit Committee under generally accepted auditing standards.

The Audit Committee has discussed with Hacker, Johnson & Smith, P.A., the written disclosure and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). These items relate to the firm's independence from management and the Company. The Audit Committee has considered whether the provision of non-audit services by Hacker, Johnson & Smith, P.A., is compatible with maintaining its independence. The Audit Committee has also discussed with Hacker, Johnson & Smith, P.A., any items required to be discussed by the Statement on Auditing Standards No.61 (Communication with Audit Committees).

The Audit Committee discussed with the Company's internal auditor and Hacker, Johnson & Smith, P.A., the overall scope and plans for their respective audits. The Audit Committee meets with the internal auditor and Hacker, Johnson & Smith, P.A., with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting. During 2005, the Chairman of the Audit Committee met on different occasions with management and internal and external auditors to review various audit related matters.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2005, and filed with the Securities and Exchange Commission. The foregoing report is respectfully submitted by the Audit Committee:

Kenneth W. Hill, Audit Committee Chairman, Dr. Samuel Certo, and George W. Foster

DIRECTOR COMPENSATION

In 2005, we paid each Federal Trust director a quarterly retainer of \$2,500 and \$2,500 per Board meeting. We did not pay Federal Trust Directors any fees for membership on committees or serving as Chairman of the Board or any committee. In 2005, we also issued restricted stock units for 2,826 and 4,408 shares to Mr. Foster and Dr. Certo, respectively. In addition, Directors Foster, Hill and Iglar received stock options for 1,000 shares, 600 shares and 800 shares, respectively, for serving as the Chairman of the Nominating and Corporate Governance Committee, the Audit Committee and the Compensation Committee, respectively.

In 2005, Federal Trust Bank paid its directors \$500 per full Board meeting and \$250 per committee meeting. The Chairman of the Bank's Board, James V. Suskiewich, received an additional \$500 per full Board meeting. In addition, one Bank Director who is not also a Federal Trust director received a quarterly retainer of \$2,500.

1998 Directors' Stock Option Plan

Our 1998 Directors' Stock Option Plan (1998 Directors' Plan) was approved by shareholders at the 1998 Annual Meeting. At the 2002 Annual Meeting, additional shares were

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reserved for issuance. The 1998 Directors' Plan authorizes the granting of only compensatory options. Under the terms of the 1998 Directors' Plan, 140,000 shares of common stock were reserved for issuance upon the exercise of options. Stock options covering all 140,000 shares have been issued.

The per share exercise price of the options that were granted was equal to the fair market value of a share of common stock as of the date of grant. The stock options granted under the 1998 Directors' Plan can be exercised any time after six months from the date of grant up until ten years after the date of grant. Unless terminated, the 1998 Directors' Plan shall remain in effect until the tenth anniversary of its effective date.

2005 Director Stock Plan

At the 2005 Annual Meeting our shareholders approved the adoption of the 2005 Director Stock Plan (2005 Director Plan). Under the 2005 Director Plan, 90,000 shares of Federal Trust common stock have been reserved. Awards made under the 2005 Director Plan may be in the form of shares, stock units, or stock options. Each director of Federal Trust and Federal Trust Bank may be granted an annual stock retainer, in which the director annually elects to receive either shares or stock units. A stock unit is the right to receive a share of common stock on a date elected by the director. Awards made as part of an annual stock retainer will be granted quarterly to coincide with the quarterly payment of the director's annual cash retainer. The number of shares or stock units granted each quarter will be equal to up to 25% of the director's annual cash retainer divided by the fair market value per share on the date of the award.

In addition, the Plan provides that a director may elect to substitute his or her annual cash retainer or a portion thereof, with an award of shares or stock units. The number of shares or stock units granted will equal the amount of the annual cash retainer that the director has elected divided by the fair market value per share on the date of the award. While any stock unit is outstanding, the director holding the stock unit will be entitled to receive a dividend in the form of additional stock units if cash dividends are declared on outstanding shares of common stock. The amount of any such dividend will be equal to the amount of the cash dividend declared times the number of stock units held divided by the fair market value of the common stock on the date the dividend is paid. Each stock unit, including fractional stock units, will be converted to one share of common stock on the date which has been selected by the director.

The Plan also provides for discretionary awards which may be granted by the Board in its sole discretion to recognize any additional services provided to the Board or the company or as a special grant to all directors. These discretionary awards may be in the form of stock options, shares, or stock units; provided, however, that any stock options granted may not be exercisable for less than fair market value per share on the date of grant, and must be exercised at least 6 months from the date of grant and before the earlier of: (i) up to 10 years after the date of the award; or (ii) one year from the date the director's service is terminated by reason of retirement or death.

As of the date of this Proxy Statement, only 2,400 stock options and 6,874 restricted stock units had been granted, representing less than 1% of Federal trust's outstanding shares.

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COMPENSATION COMMITTEE REPORT

To Our Shareholders:

The compensation for our executive officers is determined by the Compensation Committee, none of whom is also an executive officer or employee of the Company. Each Compensation Committee member is independent as defined under the AMEX rules. Cash compensation consists of an annual salary and, except for the Chief Executive Officer/President, a discretionary year-end bonus. The annual salaries for 2005 were established in the fourth quarter of 2004. The year-end bonuses were determined in the fourth quarter of 2005, and were paid at the beginning of 2006. In determining the cash compensation for the executive officers, the Chief Executive Officer/President initi