TIERONE CORP
Form 10-Q
November 07, 2005

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2005

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission file number: 000-50015

TierOne Corporation

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Wisconsin	04-3638672
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1235 "N" Street Lincoln, Nebraska	68508
(Address of Principal Executive Offices)	(Zip Code)

(402) 475-0521

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes _X_ No ___

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

As of November 4, 2005, there were 18,145,773 issued and outstanding shares of the Registrant s common stock.

PART I - FINANCIAL INFORMATION

TierOne Corporation and Subsidiaries
Consolidated Statements of Financial Condition
September 30, 2005 (Unaudited) and December 31, 2004

(Dollars in thousands, except per share data)		**September 30, 2005**		**December 31, 2004**
ASSETS				
Cash and cash equivalents	$	62,313	$	70,030
Investment securities:				
Held to maturity, at cost which approximates fair value		114		126
Available for sale, at fair value		111,306		127,757
Mortgage-backed securities, available for sale, at fair value		23,003		36,175
Loans receivable:				
Net loans (includes loans held for sale of $11,617 and $11,956 at September 30, 2005 and December 31, 2004, respectively)		2,885,887		2,654,986
Allowance for loan losses		(29,447)		(26,831)
Net loans after allowance for loan losses		2,856,440		2,628,155
Federal Home Loan Bank stock		57,743		54,284
Premises and equipment, net		37,001		38,220
Accrued interest receivable		18,668		15,573
Goodwill		42,283		42,283
Other intangible assets, net		10,483		11,877
Other assets		26,946		23,601
Total assets	$	3,246,300	$	3,048,081

(Dollars in thousands, except per share data)	September 30, 2005	December 31, 2004
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	$ 1,933,456	$ 1,864,761
Advances from Federal Home Loan Bank and other borrowings	956,177	841,666
Advance payments from borrowers for taxes, insurance and other escrow funds	19,194	26,565
Accrued interest payable	6,928	6,308
Accrued expenses and other liabilities	31,988	31,758
Total liabilities	2,947,743	2,771,058
Stockholders equity:		
Preferred stock, $0.01 par value. 10,000,000 shares authorized; none issued	--	--
Common stock, $0.01 par value. 60,000,000 shares authorized; 18,146,740 and 18,287,811 shares issued and outstanding at September 30, 2005 and December 31, 2004, respectively	226	226
Additional paid-in capital	357,879	355,986
Retained earnings, substantially restricted	66,776	46,263
Treasury stock, at cost. 4,428,335 and 4,287,264 shares at September 30, 2005 and December 31, 2004, respectively	(101,671)	(98,254)
Unallocated common stock held by Employee Stock Ownership Plan	(13,545)	(14,674)
Unearned common stock held by Management Recognition and Retention Plan	(10,074)	(12,229)
Accumulated other comprehensive loss, net	(1,034)	(295)
Total stockholders' equity	298,557	277,023
Commitments and contingent liabilities		
Total liabilities and stockholders equity	$ 3,246,300	$ 3,048,081

See accompanying notes to consolidated financial statements.

TierOne Corporation and Subsidiaries
Consolidated Statements of Income
(Unaudited)

(Dollars in thousands, except per share data)	For the Three Months Ended September 30, 2005	For the Three Months Ended September 30, 2004	For the Nine Months Ended September 30, 2005	For the Nine Months Ended September 30, 2004
Interest income:				
Loans receivable	$ 44,208	$ 29,741	$ 122,303	$ 83,978
Investment securities	2,001	1,343	6,131	3,173
Other interest-earning assets	--	31	--	31
Total interest income	46,209	31,115	128,434	87,182

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
Interest expense:				
Deposits	10,909	6,926	29,740	18,458
Advances from Federal Home Loan Bank and other borrowings	8,604	5,329	21,961	14,981
Total interest expense	19,513	12,255	51,701	33,439
Net interest income	26,696	18,860	76,733	53,743
Provision for loan losses	1,691	922	4,402	2,961
Net interest income after provision for loan losses	25,005	17,938	72,331	50,782
Noninterest income:				
Fees and service charges	5,291	4,215	15,306	12,025
Debit card fees	543	462	1,531	1,451
Gain (loss) from real estate operations, net	14	32	6	(77)
Net gain (loss) on sales of:				
Investment securities	1	--	14	312
Loans held for sale	552	407	1,525	1,428
Real estate owned	(1)	46	49	90
Gain on pension plan curtailment	--	--	--	1,456
Other operating income	204	130	486	343
Total noninterest income	6,604	5,292	18,917	17,028
Noninterest expense:				
Salaries and employee benefits	10,457	8,924	30,861	24,596
Occupancy, net	2,186	1,711	6,312	4,728
Data processing	517	549	1,510	1,516
Advertising	944	785	3,152	2,426
Other operating expense	3,847	2,535	11,852	7,236
Total noninterest expense	17,951	14,504	53,687	40,502
Income before income taxes	13,658	8,726	37,561	27,308
Income tax expense	5,095	3,239	14,212	10,186
Net income	$ 8,563	$ 5,487	$ 23,349	$ 17,122
Net income per common share, basic	$ 0.53	$ 0.34	$ 1.44	$ 1.01
Net income per common share, diluted	$ 0.51	$ 0.34	$ 1.40	$ 0.99
Dividends declared per common share	$ 0.06	$ 0.05	$ 0.17	$ 0.15
Average common shares outstanding, basic (000's)	16,226	16,059	16,191	16,999
Average common shares outstanding, diluted (000's)	16,728	16,301	16,637	17,310

See accompanying notes to consolidated financial statements.

TierOne Corporation and Subsidiaries
Consolidated Statements of Changes in Stockholders Equity and Comprehensive Income
Nine Months Ended September 30, 2005 and September 30, 2004
(Unaudited)

(Dollars in thousands)	Common Stock	Additional Paid-In Capital	Retained Earnings, Substantially Restricted	Treasury Stock	Unallocated Common Stock Held by the Employee Stock Ownership Plan	Unearned Common Stock Held by the Management Recognition and Retention Plan	Accumulated Other Comprehensive Income (Loss), Net	Total Stockholders Equity
Balance at December 31, 2003	$ 226	$ 354,054	$ 25,833	$ (53,613)	$ (16,179)	$ (14,982)	$ (250)	$ 295,089
Common stock earned by employees in Employee Stock Ownership Plan	--	1,335	--	--	1,129	--	--	2,464
Amortization of awards under the Management Recognition and Retention Plan	--	83	--	--	--	2,046	--	2,129
Repurchase of common stock (2,031,757 shares)	--	--	--	(44,687)	--	--	--	(44,687)
Dividends paid ($0.15 per common share)	--	--	(2,602)	--	--	--	--	(2,602)
Comprehensive income:								
Net income	--	--	17,122	--	--	--	--	17,122
Change in additional minimum pension liability, net of tax	--	--	--	--	--	--	452	452
Change in unrealized gain on available for sale securities, net of tax and reclassification adjustment	--	--	--	--	--	--	(75)	(75)
Total comprehensive income	--	--	17,122	--	--	--	377	17,499
Balance at September 30, 2004	$ 226	$ 355,472	$ 40,353	$ (98,300)	$ (15,050)	$ (12,936)	$ 127	$ 269,892
Balance at December 31, 2004	$ 226	$ 355,986	$ 46,263	$ (98,254)	$ (14,674)	$ (12,229)	$ (295)	$ 277,023
Common stock earned by employees in Employee Stock Ownership Plan	--	1,737	--	--	1,129	--	--	2,866
Amortization of awards under the Management Recognition and Retention Plan	--	190	--	--	--	2,155	--	2,345
Treasury stock reissued under stock option plan	--	(34)	--	149	--	--	--	115
Repurchase of common stock (147,571 shares)	--	--	--	(3,566)	--	--	--	(3,566)
Dividends paid ($0.17 per common share)	--	--	(2,836)	--	--	--	--	(2,836)
Comprehensive income:								
Net income	--	--	23,349	--	--	--	--	23,349
Change in unrealized loss on available for sale securities, net of	--	--	--	--	--	--	(739)	(739)

(Dollars in thousands)	Common Stock	Additional Paid-In Capital	Retained Earnings, Substantially Restricted	Treasury Stock	Unallocated Common Stock Held by the Employee Stock Ownership Plan	Unearned Common Stock Held by the Management Recognition and Retention Plan	Accumulated Other Comprehensive Income (Loss), Net	Total Stockholders Equity
tax and reclassification adjustment								
Total comprehensive income	--	--	23,349	--	--	--	(739)	22,610
Balance at September 30, 2005	$ 226	$ 357,879	$ 66,776	$ (101,671)	$ (13,545)	$ (10,074)	$ (1,034)	$ 298,557

See accompanying notes to consolidated financial statements.

TierOne Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2005 and September 30, 2004
(Unaudited)

	Nine Months Ended September 30,	
(Dollars in thousands)	2005	2004
Reconciliation of net income to net cash provided by operating activities:		
Net income	$ 23,349	$ 17,122
Adjustments to reconcile net income to net cash provided by operating activities:		
Net premium amortization of investment and mortgage-backed securities	436	270
Depreciation and amortization	2,707	2,127
Amortization of intangible assets	1,394	142
Accretion of discount on Federal Home Loan Bank advances	(191)	(21)
Employee Stock Ownership Plan expense	2,866	2,464
Management Recognition and Retention Plan expense	2,345	2,129
Amortization of premiums on net loans	2,857	6,373
Federal Home Loan Bank stock dividend	(1,937)	(1,003)
Deferred income tax expense (benefit)	487	(1,637)
Provision for loan losses	4,402	2,961
Proceeds from sales of loans held for sale	197,104	224,559
Originations and purchases of loans held for sale	(195,240)	(224,157)
Net (gain) loss on sales of:		
Investment securities	(14)	(312)
Loans held for sale	(1,525)	(1,428)
Real estate owned	(49)	(90)
Premises and equipment	21	(4)
Changes in certain assets and liabilities:		
Accrued interest receivable	(3,095)	(1,416)
Other assets	(706)	2,429
Accrued interest payable	620	(144)
Accrued expenses and other liabilities	371	(2,538)
Net cash provided by operating activities	36,202	27,826
Cash flows from investing activities:		
Acquisition of United Nebraska Financial Co., net of cash acquired	--	(28,229)
Purchase of investment and mortgage-backed securities, available for sale	(3,460)	(11,979)

	Nine Months Ended September 30,	
Proceeds from sale of investment and mortgage-backed securities, available for sale	3,230	13,842
Proceeds from maturities of investment securities, available for sale	15,255	4,590
Proceeds from principal repayments of investment and mortgage-backed securities, available for sale and held to maturity	12,987	5,078
Increase in loans receivable	(238,838)	(107,633)
Purchase of Federal Home Loan Bank stock	(1,522)	(7,106)
Sale of Federal Home Loan Bank stock	--	1,775
Additions to premises and equipment	(2,295)	(4,987)
Proceeds from sale of premises and equipment	133	--
Proceeds from sale of real estate owned	852	1,998
Net cash used in investing activities	(213,658)	(132,651)

See accompanying notes to consolidated financial statements.

TierOne Corporation and Subsidiaries
Consolidated Statements of Cash Flows (continued)
Nine Months Ended September 30, 2005 and September 30, 2004
(Unaudited)

	Nine Months Ended September 30,	
(Dollars in thousands)	**2005**	**2004**
Cash flows from financing activities:		
Net increase in deposits	$ 68,695	$ 155,481
Net (repayment) advances on Federal Home Loan Bank line of credit and short-term advances and other borrowings	(64,863)	25,185
Proceeds from Federal Home Loan Bank long-term advances and other borrowings	250,000	98,000
Repayments of Federal Home Loan Bank long-term advances and other borrowings	(70,435)	(122,996)
Proceeds from junior subordinated debentures	--	30,928
Net decrease in advances from borrowers for taxes, insurance and other escrow funds	(7,371)	(6,489)
Repurchase of common stock	(3,566)	(44,687)
Dividends paid on common stock	(2,836)	(2,602)
Proceeds from the exercise of stock options	115	--
Net cash provided by financing activities	169,739	132,820
Net (decrease) increase in cash and cash equivalents	(7,717)	27,995
Cash and cash equivalents at beginning of period	70,030	34,901
Cash and cash equivalents at end of period	$ 62,313	$ 62,896
Supplemental disclosures of cash flow information:		
Cash paid during period for:		
Interest	$ 51,081	$ 33,583
Income taxes, net of refunds	$ 14,081	$ 9,149
Noncash investing activities:		
Transfers from loans to real estate owned and other assets	$ 2,954	$ 2,761

See accompanying notes to consolidated financial statements.

7

TierOne Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

Note 1 Basis of Presentation

TierOne Corporation (Company) is a Wisconsin corporation headquartered in Lincoln, Nebraska. TierOne Corporation is the holding company for TierOne Bank (Bank). At September 30, 2005, the Bank operated from 68 banking offices located in Nebraska, Iowa and Kansas and eight loan production offices located in Arizona, Colorado, Florida, Minnesota and North Carolina.

Note 2 Basis of Consolidation

The accompanying unaudited consolidated financial statements include the accounts of the Bank and its wholly owned subsidiaries TMS Corporation of the Americas (TMS) and United Farm & Ranch Management, Inc. (UFARM). TMS is the holding company of TierOne Investments and Insurance, Inc., a wholly owned subsidiary that administers the sale of securities and insurance products, and TierOne Reinsurance Company, a wholly owned subsidiary that reinsures credit life and disability insurance policies. UFARM provides agricultural customers professional farm and ranch management and real estate brokerage services.

The accompanying interim consolidated financial statements as of September 30, 2005 and for the three and nine months ended September 30, 2005 and September 30, 2004 have not been audited by independent auditors. All significant intercompany accounts and transactions have been eliminated in consolidation. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position and operating results for interim periods. The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, in accordance with instructions to Form 10-Q and Article 10 of Regulation S-X promulgated by the Securities and Exchange Commission (SEC), and do not include all of the information and notes required for complete, audited financial statements. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2004. The results of operations for the three and nine months ended September 30, 2005 are not necessarily indicative of the results which may be expected for the entire calendar year 2005.

8

TierOne Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

Note 3 Significant Accounting Policies

Allowance for Loan Losses. We have identified the evaluation of the allowance for loan losses as a critical accounting policy since these amounts are sensitive to material variation. This policy is significantly affected by our judgment and uncertainties and there is a likelihood that materially different amounts could be reported under different, but reasonably plausible, conditions or assumptions. The allowance for loan losses is considered a critical accounting estimate because there is a large degree of judgment in:

- Assigning individual loans to specific risk levels (pass, special mention, substandard, doubtful and loss);
- Valuing the underlying collateral securing the loans;
- Determining the appropriate reserve factor to be applied to specific risk levels for special mention loans and those adversely classified (substandard, doubtful and loss); and
- Determining reserve factors for loans not classified.

We establish provisions for loan losses, which are charges to our operating results, in order to maintain a level of total allowance for loan losses that, in management s belief, covers all known and inherent losses that are both probable and reasonably estimable at each reporting date. Management reviews the loan portfolio no less frequently than quarterly in order to identify those inherent losses and to assess the overall collection probability of the loan portfolio. Management s review includes a quantitative analysis by loan category, using historical loss experience, classifying loans pursuant to a grading system and consideration of a series of qualitative loss factors. The evaluation process includes, among other things:

An analysis of delinquency trends;
Nonperforming loan trends;
Levels of charge-offs and recoveries;
Prior loss experience;
Total loans outstanding;
Volume of loan originations;
Type, size, terms and geographic concentration of loans held by us;
Value of collateral securing loans;
Number of loans requiring heightened management oversight; and
General economic conditions.

This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events change.

The allowance for loan losses consists of two elements. The first element is an allocated allowance established for specific loans identified by the credit review function that are evaluated individually for impairment and are considered to be impaired. A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Impairment is measured by:

The fair value of the collateral if the loan is collateral dependent;
The present value of expected future cash flows; or
The observable market price of the loan.

The second element is an estimated allowance established for losses which are probable and reasonable to estimate on each category of outstanding loans. While management uses available information to recognize probable losses on loans inherent in the portfolio, future additions to the allowance may be necessary based on changes in economic conditions and other factors. In addition, various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to recognize additions to the allowance based on their judgment of information available to them at the time of their examination.

Goodwill and Other Intangible Assets. Goodwill represents the excess price paid over the fair value of the tangible and intangible assets and liabilities acquired in connection with the August 27, 2004 acquisition of United Nebraska Financial Co. (UNFC). In accordance with Statement of Financial Accounting Standard (SFAS) No. 142, *Goodwill and Other Intangible Assets*, goodwill and indefinite-lived intangible balances are not being amortized, but are tested for impairment annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires the intangible assets with estimated useful lives be amortized over their respective estimated useful lives to their residual values and reviewed for impairment in accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*.

Our policy is to evaluate annually the carrying value of the reporting unit goodwill and identifiable assets not subject to amortization. Goodwill was established as part of the UNFC acquisition and supported by third-party valuations as of August 27, 2004. If the carrying value of the goodwill exceeded the implied fair value of the goodwill, an impairment loss would be recorded in an amount equal to that excess.

We have identified a single reporting unit for purposes of goodwill impairment testing. The impairment test is therefore performed on a consolidated basis. We perform our goodwill impairment analysis on an annual basis during the third quarter. Additional impairment analysis may be performed if circumstances or events occur which may have an impact on the fair value of our goodwill. Generally, fair value represents a multiple of earnings, or discounted projected cash flows. Potential impairment is indicated when the carrying value of the entity, including goodwill, exceeds it fair value. If potential for impairment exists, the fair value of the entity is subsequently measured against the fair value of its underlying assets and liabilities, excluding goodwill, to estimate an implied fair value of the entities goodwill. Impairment loss is recognized for any excess of the carrying value of the entity s goodwill over the implied fair value. We performed our impairment analysis as of September 30, 2005 and concluded that no potential impairment of goodwill existed since the fair value of our goodwill exceeded its carrying value.

TierOne Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

Our only identifiable intangible asset is the value of the core deposits acquired as part of the UNFC transaction. Determining the amount of identifiable intangible assets and their average lives involves multiple assumptions and estimates and is typically determined by performing a discounted cash flow analysis, which involves a combination of any or all of the following assumptions: customer attrition, account runoff, alternative funding costs, deposit servicing costs and discount rates. The core deposit intangible has been estimated to have a 10-year life with an accelerated rate of amortization.

Mortgage Servicing Rights. The Bank capitalizes the estimated value of mortgage servicing rights upon the sale of loans. The Bank s estimated value takes into consideration contractually known amounts, such as loan balance, term and interest rate. These estimates are impacted by loan prepayment speeds, servicing costs and discount rates used to compute a present value of the cash flow stream. Management evaluates the fair value of mortgage servicing rights on a quarterly basis using current prepayment speed, cash flow and discount rate estimates. Changes in these estimates impact fair value, and could require the Bank to record a valuation allowance or recovery. The fair value of mortgage servicing rights is highly sensitive to changes in assumptions. Changes in prepayment speed assumptions have the most significant impact on the fair value of mortgage servicing rights. Generally, as interest rates decline, prepayments accelerate with increased refinance activity, which results in a decrease in the fair value of mortgage servicing rights. As interest rates rise, prepayments generally slow, which results in an increase in the fair value of mortgage servicing rights. All assumptions are reviewed for reasonableness on a quarterly basis and adjusted as necessary to reflect current and anticipated market conditions. Thus, any measurement of fair value is limited by the conditions existing and the assumptions utilized as of a particular point in time, and those assumptions may not be appropriate if applied at a different point in time.

Derivatives and Commitments. We account for our derivatives and hedging activities in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activity*, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities* and SFAS No. 149, *Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities*.

In the normal course of business, we enter into contractual commitments, including loan commitments and rate lock commitments to extend credit to finance residential mortgages. These commitments, which contain fixed expiration dates, offer the borrower an interest rate guarantee provided the loan meets underwriting guidelines and closes within the time frame established by us. Interest rate risk arises on these commitments and subsequently closed loans if interest rates increase or decrease between the time of the interest rate lock and the delivery of the loan to the investor. Loan commitments related to mortgage loans that are intended to be sold are considered derivatives in accordance with the guidance of SEC Staff Accounting Bulletin (SAB) No. 105, *Application of Accounting Principles to Loan Commitments*. Accordingly, the fair value of these derivatives at the end of the reporting period is based on a quoted market price that closely approximates the amount that would have been recognized if the loan commitment was funded and sold.

To mitigate the effect of interest rate risk inherent in providing loan commitments, we hedge our commitments by entering into forward sale contracts. These forward contracts are marked-to-market through earnings and are not designated as accounting hedges under SFAS No. 133. The change in the fair value of loan commitments and the change in the fair value of forward sales contracts generally move in opposite directions and, accordingly, the impact of changes in these valuations on net income during the loan commitment period is generally inconsequential.

Although the forward loan sale contracts also serve as an economic hedge of loans held for sale, forward contracts have not been designated as accounting hedges under SFAS No. 133 and, accordingly, loans held for sale are accounted for at the lower of cost or market in accordance with SFAS No. 65, *Accounting for Certain Mortgage Banking Activities*.

Investment Securities. We evaluate available for sale and held to maturity investment securities for impairment on a quarterly basis. An impairment charge in the Consolidated Statements of Income is recognized when the decline in the fair value of investment securities below their cost basis is judged to be other-than-temporary. We consider various factors in determining whether we should recognize an impairment charge, including, but not limited to, the length of time and extent to which the fair value has been less than its cost basis and our ability and intent to hold the investment security for a period of time sufficient to allow for any anticipated recovery in market value.

Income Taxes. We use the asset and liability method of accounting for income taxes. Under the asset and liability method, we recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. If necessary, a valuation allowance would be established to adjust deferred tax assets to an amount for which realization is more likely than not.

12

TierOne Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

Note 4 Earnings Per Share

Basic and diluted earnings per share (EPS) data are based on the weighted average number of common shares outstanding during each reporting period. Employee Stock Ownership Plan (ESOP) shares and 2003 Management Recognition and Retention Plan (MRRP) shares not committed to be released are not considered to be outstanding for purposes of EPS calculations. The basic EPS calculation excludes the dilutive effect of all common stock equivalents. Diluted EPS is further adjusted for potential common shares that were dilutive and outstanding during the reporting periods. The Company s potentially dilutive common shares at September 30, 2005 represent shares issuable under its 2003 Stock Option Plan and MRRP computed using the treasury stock method. All stock options awarded are assumed to be 100% vested for purposes of the EPS computations.

	Three Months Ended September 30, 2005		**Three Months Ended September 30, 2004**	
(Dollars in thousands, except per share data)	**Basic**	**Diluted**	**Basic**	**Diluted**
Net income	$ 8,563	$ 8,563	$ 5,487	$ 5,487
Weighted average number of common shares outstanding used in basic earnings per share calculation (in 000's)	16,226	16,226	16,059	16,059
Common share equivalents - 2003 Stock Option Plan and 2003 Management Recognition and Retention Plan shares (in 000's)		502		242
Weighted average number of common shares outstanding used in diluted earnings per share calculation (in 000's)		16,728		16,301
Earnings per share	$ 0.53	$ 0.51	$ 0.34	$ 0.34

	Nine Months Ended September 30, 2005		**Nine Months Ended September 30, 2004**	
(Dollars in thousands, except per share data)	**Basic**	**Diluted**	**Basic**	**Diluted**
Net income	$ 23,349	$ 23,349	$ 17,122	$ 17,122
Weighted average number of common shares outstanding used in basic earnings per share calculation (in 000's)	16,191	16,191	16,999	16,999
		446		311

	Nine Months Ended September 30, 2005		Nine Months Ended September 30, 2004	
Common share equivalents - 2003 Stock Option Plan and 2003 Management Recognition and Retention Plan shares (in 000's)				
Weighted average number of common shares outstanding used in diluted earnings per share calculation (in 000's)		16,637		17,310
Earnings per share	$ 1.44	$ 1.40	$ 1.01	$ 0.99

TierOne Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

Note 5 Goodwill and Other Intangible Assets

Goodwill had a net carrying amount of $42.3 million at September 30, 2005. This amount represents the excess price paid by the Company over the fair value of the tangible and intangible assets and liabilities assumed in the acquisition of UNFC on August 27, 2004. The Company evaluates goodwill for impairment annually in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. There have been no changes in the carrying amount of goodwill during the nine months ended September 30, 2005 due to impairment and we are not aware of any facts or circumstances that would indicate our carrying value exceeded fair value.

The Company s only identifiable other intangible asset is the value of core deposits acquired as part of the UNFC acquisition. The core deposit intangible has been estimated to have a 10-year life, with an accelerated rate of amortization.

The changes in the net carrying amounts of other intangible assets for the three and nine months ended September 30, 2005 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	**2005**	**2004**	**2005**	**2004**
Balance at beginning of period	$ 10,942			