TIERONE CORP
Form 10-Q
May 06, 2005

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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 MARCH 31, 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<br>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 ___

As of May 5, 2005, there were 18,141,022 issued and outstanding shares of the Registrant s common stock.

## PART I - FINANCIAL INFORMATION

| | | Page |
|---|---|---|
| Item 1 - | Financial Statements | 3 |
| | Management's Discussion and Analysis of Financial Condition | |

| | | Page |
|---|---|---|
| Item 2 - | and Results of Operations | 26 |
| Item 3 - | Quantitative and Qualitative Disclosures About Market Risk | 40 |
| Item 4 - | Controls and Procedures | 40 |

**PART II - OTHER INFORMATION**

| | | |
|---|---|---|
| Item 1 - | Legal Proceedings | 41 |
| Item 2 - | Unregistered Sales of Equity Securities and Use of Proceeds | 41 |
| Item 3 - | Defaults Upon Senior Securities | 42 |
| Item 4 - | Submission of Matters to a Vote of Security Holders | 42 |
| Item 5 - | Other Information | 42 |
| Item 6 - | Exhibits | 42 |
| Signatures | | 43 |
| Exhibit Index | | 44 |

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

| *(Dollars in thousands, except per share data)* | March 31, 2005 | December 31, 2004 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 55,083 | $ 70,030 |
| **Investment securities:** | | |
| Held to maturity, at cost which approximates fair value | 122 | 126 |
| Available for sale, at fair value | 123,051 | 127,757 |
| Mortgage-backed securities, available for sale, at fair value | 32,049 | 36,175 |
| **Loans receivable:** | | |
| Net loans (includes loans held for sale of $15,287 and $11,956 at March 31, 2005 and December 31, 2004, respectively) | 2,671,429 | 2,654,986 |
| Allowance for loan losses | (27,252) | (26,831) |
| Net loans after allowance for loan losses | 2,644,177 | 2,628,155 |
| Federal Home Loan Bank stock | 54,878 | 54,284 |
| Premises and equipment, net | 37,448 | 38,220 |
| Accrued interest receivable | 15,735 | 15,573 |
| Goodwill | 42,283 | 42,283 |
| Other intangible assets, net | 11,409 | 11,877 |
| Other assets | 24,553 | 23,601 |

| *(Dollars in thousands, except per share data)* | March 31, 2005 | December 31, 2004 |
|---|---|---|
| Total assets | $ 3,040,788 | $ 3,048,081 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Liabilities:** | | |
| Deposits | $ 1,995,898 | $ 1,864,761 |
| Advances from Federal Home Loan Bank and other borrowings | 707,965 | 841,666 |
| Advance payments from borrowers for taxes, insurance and other escrow funds | 24,335 | 26,565 |
| Accrued interest payable | 6,557 | 6,308 |
| Accrued expenses and other liabilities | 25,372 | 31,758 |
| Total liabilities | 2,760,127 | 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; 18,147,511 and 18,287,811 shares issued and outstanding at March 31, 2005 and December 31, 2004, respectively | 226 | 226 |
| Additional paid-in capital | 356,524 | 355,986 |
| Retained earnings, substantially restricted | 52,606 | 46,263 |
| Treasury stock, at cost; 4,427,564 and 4,287,264 shares at March 31, 2005 and December 31, 2004, respectively | (101,653) | (98,254) |
| Unallocated common stock held by Employee Stock Ownership Plan | (14,298) | (14,674) |
| Unearned common stock held by Management Recognition and Retention Plan | (11,510) | (12,229) |
| Accumulated other comprehensive loss | (1,234) | (295) |
| Total stockholders' equity | 280,661 | 277,023 |
| Commitments and contingent liabilities | | |
| Total liabilities and stockholders' equity | $ 3,040,788 | $ 3,048,081 |

See accompanying notes to consolidated financial statements.

**TierOne Corporation and Subsidiaries**
**Consolidated Statements of Income**
**(Unaudited)**

| | March 31, | |
|---|---|---|
| *(Dollars in thousands, except per share data)* | 2005 | 2004 |
| **Interest income:** | | |
| Loans receivable | $ 37,466 | $ 27,163 |
| Investment securities | 2,034 | 927 |
| Total interest income | 39,500 | 28,090 |
| **Interest expense:** | | |

| | March 31, | |
|---|---|---|
| Deposits | 8,898 | 5,655 |
| Advances from Federal Home Loan Bank and other borrowings | 6,266 | 4,687 |
| Total interest expense | 15,164 | 10,342 |
| Net interest income | 24,336 | 17,748 |
| Provision for loan losses | 788 | 934 |
| Net interest income after provision for loan losses | 23,548 | 16,814 |
| **Noninterest income:** | | |
| Fees and service charges | 4,888 | 3,113 |
| Income (loss) from real estate operations, net | 2 | (77) |
| **Net gain on sales of:** | | |
| Investment securities | 13 | -- |
| Loans held for sale | 471 | 316 |
| Real estate owned | 36 | -- |
| Gain on pension plan curtailment | -- | 1,456 |
| Other operating income | 565 | 633 |
| Total noninterest income | 5,975 | 5,441 |
| **Noninterest expense:** | | |
| Salaries and employee benefits | 10,220 | 7,864 |
| Occupancy, net | 2,188 | 1,466 |
| Data processing | 508 | 504 |
| Advertising | 914 | 693 |
| Other operating expense | 4,204 | 2,069 |
| Total noninterest expense | 18,034 | 12,596 |
| Income before income taxes | 11,489 | 9,659 |
| Income tax expense | 4,311 | 3,599 |
| Net income | $ 7,178 | $ 6,060 |
| Net income per common share, basic | $ 0.44 | $ 0.34 |
| Net income per common share, diluted | $ 0.43 | $ 0.33 |
| Dividends declared per common share | $ 0.05 | $ 0.05 |
| Average common shares outstanding, basic (000's) | 16,180 | 17,939 |
| Average common shares outstanding, diluted (000's) | 16,606 | 18,332 |

See accompanying notes to consolidated financial statements.

**TierOne Corporation and Subsidiaries**
**Consolidated Statements of Changes in Stockholders Equity and Comprehensive Income**
**Three Months Ended March 31, 2005 and March 31, 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 | -- | 490 | -- | -- | 376 | -- | -- | 866 |
| Amortization of awards under the Management Recognition and Retention Plan | -- | -- | -- | -- | -- | 682 | -- | 682 |
| Dividends paid ($0.05 per common share) | -- | -- | (935) | -- | -- | -- | -- | (935) |
| **Comprehensive income:** | | | | | | | | |
| Net income | -- | -- | 6,060 | -- | -- | -- | -- | 6,060 |
| 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 | -- | -- | -- | -- | -- | -- | 222 | 222 |
| Total comprehensive income | -- | -- | 6,060 | -- | -- | -- | 674 | 6,734 |
| Balance at March 31, 2004 | $ 226 | $ 354,544 | $ 30,958 | $ (53,613) | $ (15,803) | $ (14,300) | $ 424 | $ 302,436 |
| 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 | -- | 541 | -- | -- | 376 | -- | -- | 917 |
| Amortization of awards under the Management Recognition and Retention Plan | -- | -- | -- | -- | -- | 719 | -- | 719 |
| Treasury stock reissued under stock option plan | -- | (3) | -- | 12 | -- | -- | -- | 9 |
| Repurchase of common stock (140,800 shares) | -- | -- | -- | (3,411) | -- | -- | -- | (3,411) |
| Dividends paid ($0.05 per common share) | -- | -- | (835) | -- | -- | -- | -- | (835) |
| **Comprehensive income:** | | | | | | | | |
| Net income | -- | -- | 7,178 | -- | -- | -- | -- | 7,178 |
| Change in unrealized loss on available for sale securities, net of tax and reclassification adjustment | -- | -- | -- | -- | -- | -- | (939) | (939) |
| Total comprehensive income | -- | -- | 7,178 | -- | -- | -- | (939) | 6,239 |

| *(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 March 31, 2005 | $ 226 | $ 356,524 | $ 52,606 | $ (101,653) | $ (14,298) | $ (11,510) | $ (1,234) | $ 280,661 |

See accompanying notes to consolidated financial statements.

## TierOne Corporation and Subsidiaries
## Consolidated Statements of Cash Flows
## Three Months Ended March 31, 2005 and March 31, 2004
## (Unaudited)

| | March 31, | |
|---|---|---|
| *(Dollars in thousands)* | **2005** | **2004** |
| **Reconciliation of net income to net cash provided by operating activities:** | | |
| Net income | $ 7,178 | $ 6,060 |
| **Adjustments to reconcile net income to net cash provided by operating activities:** | | |
| Net premium amortization of investment and mortgage-backed securities | 149 | 56 |
| Depreciation and amortization | 985 | 634 |
| Amortization of intangible assets | 468 | -- |
| Amortization of premium on Federal Home Loan Bank advances | (64) | -- |
| Employee Stock Ownership Plan expense | 917 | 866 |
| Management Recognition and Retention Plan expense | 719 | 682 |
| Amortization of premiums on net loans | 1,363 | 2,076 |
| Federal Home Loan Bank stock dividend | (594) | (323) |
| Deferred income tax expense | 253 | 100 |
| Provision for loan losses | 788 | 934 |
| Proceeds from sales of loans held for sale | 48,123 | 48,339 |
| Originations and purchases of loans held for sale | (50,983) | (54,496) |
| **Net (gain) loss on sales of:** | | |
| Investment securities | (13) | -- |
| Loans held for sale | (471) | (316) |
| Real estate owned | (36) | -- |
| Premises and equipment | 11 | -- |
| **Changes in certain assets and liabilities:** | | |
| Accrued interest receivable | (162) | 128 |
| Other assets | 74 | 413 |
| Accrued interest payable | 249 | 51 |
| Accrued expenses and other liabilities | (6,386) | (3,398) |
| Net cash provided by operating activities | 2,568 | 1,806 |
| **Cash flows from investing activities:** | | |
| Purchase of investment and mortgage-backed securities, available for sale | (3,000) | -- |
| Proceeds from sale of investment and mortgage-backed securities, available for sale | 3,143 | -- |
| Proceeds from maturities of investment securities, available for sale | 3,125 | 3,900 |
| Proceeds from principal repayments of investment and mortgage-backed securities, available for sale and held to maturity | 3,918 | 1,324 |

| | March 31, | |
|---|---|---|
| Increase in loans receivable | (15,202) | (57,775) |
| Additions to premises and equipment | (904) | (1,270) |
| Proceeds from sale of premises and equipment | 27 | -- |
| Proceeds from sale of real estate owned | 345 | 457 |
| Net cash used in investing activities | (8,548) | (53,364) |

See accompanying notes to consolidated financial statements.

**TierOne Corporation and Subsidiaries**
**Consolidated Statements of Cash Flows (continued)**
**Three Months Ended March 31, 2005 and March 31, 2004**
**(Unaudited)**

| | March 31, | |
|---|---|---|
| *(Dollars in thousands)* | **2005** | **2004** |
| **Cash flows from financing activities:** | | |
| Net increase in deposits | $ 131,137 | $ 98,210 |
| Net repayment on Federal Home Loan Bank line of credit and short-term advances and other borrowings | (103,282) | (53,363) |
| Repayments of Federal Home Loan Bank long-term advances and other borrowings | (30,355) | -- |
| Net decrease in advances from borrowers for taxes, insurance and other escrow funds | (2,230) | (1,106) |
| Repurchase of common stock | (3,411) | -- |
| Dividends paid on common stock | (835) | (935) |
| Proceeds from the exercise of stock options | 9 | -- |
| Net cash (used in) provided by financing activities | (8,967) | 42,806 |
| Net decrease in cash and cash equivalents | (14,947) | (8,752) |
| Cash and cash equivalents at beginning of period | 70,030 | 34,901 |
| Cash and cash equivalents at end of period | $ 55,083 | $ 26,149 |
| **Supplemental disclosures of cash flow information:** | | |
| **Cash paid during period for:** | | |
| Interest | $ 14,915 | $ 10,291 |
| Income taxes, net of refunds | $ 4,525 | $ 3,635 |
| **Noncash investing activities:** | | |
| Transfers from loans to real estate owned and other assets through foreclosure | $ 360 | $ 685 |

See accompanying notes to consolidated financial statements.

**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 March 31, 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 March 31, 2005 and for the three months ended March 31, 2005 and March 31, 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 months ended March 31, 2005 are not necessarily indicative of the results which may be expected for the entire calendar year 2005.

**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 where 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 to be applied to pass loans based upon loan type.

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 by the Company over the fair value of the tangible and intangible assets and liabilities acquired from United Nebraska Financial Co. ( UNFC ) on August 27, 2004, the date of the acquisition. 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 at least 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*.

The impairment of identifiable intangibles and long-lived assets is assessed whenever events or changes in circumstances indicate their carrying value may not be recoverable through expected future undiscounted cash flows. If the total expected undiscounted cash flows are less than the carrying value of the assets, the asset is written down to its estimated fair value.

The Company s only identifiable intangible asset is the value of the core deposits acquired as part of the UNFC acquisition. 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. The Company is not aware of any events or circumstances that indicate carrying value or estimated life has changed during the three months ended March 31, 2005.

The Company s policy is to evaluate annually the carrying value of the reporting unit goodwill and identifiable assets not subject to amortization. Goodwill was established and supported by third-party valuations as of August 27, 2004 as part of the UNFC acquisition. 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. Performing such a discounted cash flow analysis would involve the significant use of estimates and assumptions.

There have been no changes in the carrying amount of goodwill during the three months ended March 31, 2005 due to impairment as the Company is not aware of any facts or circumstances that would indicate the Company s carrying value exceeded fair value.

***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. As interest rates rise, prepayments generally slow, which results in an increase in the fair value. 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***. The Company evaluates its 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. The Company considers various factors in determining whether it 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.

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

***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.

**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 ) 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 March 31, 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 March 31, 2005** | | **Three Months Ended March 31, 2004** | |
|---|---|---|---|---|
| ***(Dollars in thousands, except per share data)*** | **Basic** | **Diluted** | **Basic** | **Diluted** |
| Net income | $ 7,178 | $ 7,178 | $ 6,060 | $ 6,060 |
| Weighted average number of common shares outstanding used in basic earnings per share calculation (in 000's) | 16,180 | 16,180 | 17,939 | 17,939 |

| | Three Months Ended March 31, 2005 | | Three Months Ended March 31, 2004 | |
|---|---|---|---|---|
| Common share equivalents - 2003 Stock Option Plan and 2003 Management Recognition and Retention Plan shares (in 000's) | | 426 | | 393 |
| Weighted average number of common shares outstanding used in diluted earnings per share calculation (in 000's) | | 16,606 | | 18,332 |
| Earnings per share | $ 0.44 | $ 0.43 | $ 0.34 | $ 0.33 |

**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 March 31, 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 at least 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 three months ended March 31, 2005 due to impairment as the Company is not aware of any facts or circumstances that would indicate the Company s 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 Company is not aware of any events or circumstances that indicate carrying value or estimated life has changed during the three months ended March 31, 2005.

The changes in the net carrying amounts of other intangible assets for the three months ended March 31, 2005 are as follows:

| *(Dollars in thousands)* | Core Deposit Intangible |
|---|---|
| Balance at beginning of period | $ 11,877 |
| Additions | -- |
| Amortization expense | (468) |
| Balance at end of period | $ 11,409 |

Estimated amortization expense for core deposit intangibles for the year ended December 31, 2005 and five years thereafter is as follows:

| *(Dollars in thousands)* | Core Deposit Intangible |
|---|---|
| **Estimated Amortization Expense For the Year Ending:** | |
| December 31, 2005 | $ 1,835 |
| December 31, 2006 | 1,729 |

| *(Dollars in thousands)* | **Core Deposit Intangible** |
|---|---|
| December 31, 2007 | 1,616 |
| December 31, 2008 | 1,494 |
| December 31, 2009 | 1,362 |
| December 31, 2010 | 1,215 |

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

### Note 6 Investment and Mortgage-Backed Securities

The following table shows the composition of our investment and mortgage-backed securities portfolio at the dates indicated:

| | **March 31, 2005** | | | |
|---|---|---|---|---|
| | | **Gross Unrealized** | | |
| *(Dollars in thousands)* | **Amortized Cost** | **Gains** | **Losses** | **Fair Value** |
| **Held to maturity:** | | | | |
| Municipal obligations | $ 122 | $ -- | $ -- | $ 122 |
| **Available for sale:** | | | | |
| Mortgage-backed securities | 32,377 | 122 | 450 | 32,049 |
| U.S. Government securities and agency obligations | 84,326 | 4 | 1,249 | 83,081 |
| Corporate securities | 11,002 | 34 | 184 | 10,852 |
| Municipal obligations | 22,729 | 34 | 164 | 22,599 |
| Agency equity securities | 633 | -- | 16 | 617 |
| Asset Management Fund - ARM Fund | 6,000 | -- | 98 | 5,902 |
| Total investment and mortgage-backed securities, available for sale | $ 157,067 | $ 194 | $ 2,161 | $ 155,100 |

| | **December 31, 2004** | | | |
|---|---|---|---|---|
| | | **Gross Unrealized** | | |
| *(Dollars in thousands)* | **Amortized Cost** | **Gains** | **Losses** | **Fair Value** |
| **Held to maturity:** | | | | |
| Municipal obligations | $ 126 | $ -- | $ -- | $ 126 |
| **Available for sale:** | | | | |
| Mortgage-backed securities | 36,286 | 234 | 345 | 36,175 |
| U.S. Government securities and agency obligations | 83,371 | 30 | 536 | 82,865 |
| Corporate securities | 11,532 | 216 | 34 | 11,714 |
| Municipal obligations | 23,434 | 36 | 42 | 23,428 |
| Agency equity securities | 3,763 | 61 | 1 | 3,823 |

| | March 31, 2005 | | | |
|---|---|---|---|---|
| Asset Management Fund - ARM Fund | 6,000 | -- | 73 | 5,927 |
| Total investment and mortgage-backed securities, available for sale | $ 164,386 | $ 577 | $ 1,031 | $ 163,932 |

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

### Note 7 Loan Portfolio Composition

The following table shows the composition of the Bank s loan portfolio by type of loan at the dates indicated:

| | March 31, 2005 | | December 31, 2004 | |
|---|---|---|---|---|
| *(Dollars in thousands)* | **Amount** | **%** | **Amount** | **%** |
| **Real estate loans:** | | | | |
| One-to-four family residential (1) | $ 400,435 | 12.82% | $ 418,270 | 13.54% |
| Second mortgage residential | 227,774 | 7.29 | 255,222 | 8.26 |
| Multi-family residential | 129,449 | 4.15 | 142,454 | 4.61 |
| Commercial real estate and land | 627,893 | 20.10 | 597,114 | 19.33 |
| Residential construction | 634,242 | 20.31 | 601,075 | 19.46 |
| Commercial construction | 312,332 | 10.00 | 282,399 | 9.14 |
| Agriculture | 63,814 | 2.04 | 66,830 | 2.16 |
| Total real estate loans | 2,395,939 | 76.71 | 2,363,364 | 76.50 |
| Business loans | 151,692 | 4.86 | 142,675 | 4.62 |
| Agriculture - operating | 65,676 | 2.10 | 71,223 | 2.31 |
| Warehouse mortgage lines of credit | 125,596 | 4.02 | 132,928 | 4.30 |
| **Consumer loans:** | | | | |
| Home equity | 59,491 | 1.90 | 56,441 | 1.83 |
| Home equity line of credit | 143,177 | 4.58 | 142,725 | 4.62 |
| Home improvement | 72,429 | 2.32 | 73,386 | 2.37 |
| Automobile | 82,696 | 2.65 | 80,512 | 2.61 |
| Other | 26,788 | 0.86 | 25,956 | 0.84 |
| Total consumer loans | 384,581 | 12.31 | 379,020 | 12.27 |
| Total loans | 3,123,484 | 100.00% | 3,089,210 | 100.00% |
| Unamortized premiums, discounts and deferred loan fees | 5,238 | | 7,228 | |
| Undisbursed portion of construction and land development loans in process | (457,293) | | (441,452) | |
| Net loans | 2,671,429 | | 2,654,986 | |
| Allowance for loan losses | (27,252) | | (26,831) | |

| | March 31, 2005 | December 31, 2004 |
|---|---|---|
| Net loans after allowance for loan losses | $ 2,644,177 | $ 2,628,155 |
| (1) Includes loans held for sale | $ 15,287 | $ 11,956 |

### Note 8 Allowance for Loan Losses

The following table sets forth the activity in the allowance for loan losses during the periods indicated:

| | At or for the Three Months Ended March 31, | |
|---|---|---|
| *(Dollars in thousands)* | 2005 | 2004 |
| Allowance for loan losses, beginning of period | $ 26,831 | $ 19,586 |
| Provision for loan losses | 788 | 934 |
| Charge-offs | (468) | (507) |
| Recoveries on loans previously charged-off | 101 | 73 |
| Allowance for loan losses, end of period | $ 27,252 | $ 20,086 |
| Allowance for loan losses as a percentage of net loans | 1.02% | 0.96% |

### Note 9 Nonperforming Assets

The following table sets forth information with respect to nonperforming assets and troubled debt restructurings at the dates indicated. It is the Bank s policy to cease accruing interest on loans 90 days or more past due and to charge off accrued interest. Total impaired loans amounted to approximately $6.1 million at March 31, 2005 and December 31, 2004. There was an allowance for loan loss specifically allocated to impaired loans of $464,000 at March 31, 2005 and December 31, 2004.

| *(Dollars in thousands)* | **March 31, 2005** | **December 31, 2004** |
|---|---|---|
| **Non-accruing loans:** | | |
| One-to-four family residential | $ 1,732 | $ 1,914 |
| Second mortgage residential | 667 | 739 |
| Multi-family residential | 2,374 | 2,374 |
| Commercial real estate and land | 1,287 | 707 |
| Residential construction | 2,017 | 2,256 |
| Agriculture real estate | -- | 349 |
| Business | 900 | 771 |
| Agriculture - operating | 323 | 1 |
| Consumer | 682 | 1,121 |
| Total non-accruing loans | 9,982 | 10,232 |
| Real estate owned, net (1) | 433 | 382 |
| Total nonperforming assets | 10,415 | 10,614 |
| Troubled debt restructurings | 3,993 | 3,469 |
| Total nonperforming assets and troubled debt restructurings | $ 14,408 | $ 14,083 |
| Total nonperforming loans as a percent of net loans | 0.37% | 0.39% |
| Total nonperforming assets as a percent of total assets | 0.34% | 0.35% |
| Total nonperforming assets and troubled debt restructurings as a percent of total assets | 0.47% | 0.46% |
| Allowance for loan losses as a percent of net loans | 1.02% | 1.01% |
| Allowance for loan losses as a percent of nonperforming loans | 273.01% | 262.23% |

(1) Real estate owned balances are shown net of related loss allowances. Includes both real property and other repossessed collateral consisting primarily of automobiles.

### Note 10 Mortgage Servicing Rights

Mortgage servicing rights are included in the Consolidated Statements of Financial Condition under the caption Other Assets. The activity of mortgage servicing rights during the periods presented is summarized in the following table:

| | **Three Months Ended March 31,** | | **Year Ended December 31,** | |
|---|---|---|---|---|
| *(Dollars in thousands)* | **2005** | **2004** | **2004** | **2003** |
| Balance at beginning of period | $ 10,505 | $ 8,705 | $ 8,705 | $ 6,290 |
| Mortgage servicing rights capitalized | 602 | 611 | 3,406 | 7,346 |
| Mortgage servicing rights acquired | -- | -- | 402 | -- |
| Amortization expense | (648) | (625) | (2,876) | (5,583) |
| Valuation adjustment | 120 | -- | 868 | 652 |

| | Three Months Ended<br>March 31, | | Year Ended<br>December 31, | |
|---|---|---|---|---|
| Balance at end of period | $ 10,579 | $ 8,691 | $ 10,505 | $ 8,705 |

The activity of the valuation allowance on mortgage servicing rights is summarized in the following table for the periods presented:

| | Three Months Ended<br>March 31, | | Year Ended<br>December 31, | |
|---|---|---|---|---|
| *(Dollars in thousands)* | **2005** | **2004** | **2004** | **2003** |
| Balance at beginning of period | $ 800 | $ 1,668 | $ 1,668 | $ 2,320 |
| Changes in mortgage servicing valuation reserve | (120) | -- | (868) | (652) |
| Balance at end of period | $ 680 | $ 1,668 | $ 800 | $ 1,668 |

The following table compares the key assumptions used in measuring the fair values of mortgage servicing rights at March 31, 2005 and December 31, 2004:

| *(Dollars in thousands)* | **March 31, 2005** | **December 31, 2004** |
|---|---|---|
| Serviced loan portfolio balance | $1,122,364 | $1,111,104 |
| Fair value | $11,830 | $11,503 |
| Prepayment speed | 8.61% - 32.57% | 7.86% - 35.52% |
| Weighted average prepayment speed | 15.68% | 17.17% |
| Fair value with 10% adverse change | $11,344 | $11,021 |
| Fair value with 20% adverse change | $10,855 | $10,528 |
| Discount rate | 10.00% - 15.50% | 10.00% - 15.50% |
| Weighted average discount rate | 12.10% | 11.74% |
| Fair value with 10% adverse change | $11,477 | $11,207 |
| Fair value with 20% adverse change | $11,110 | $10,867 |

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

### Note 11 Stock-Based Benefit Plans

***Management Recognition and Retention Plan.*** The Company has in effect the MRRP, which is a stock-based incentive plan. The following table summarizes shares of the Company s common stock which were subject to award and have been granted pursuant to the MRRP:

| | **March 31, 2005** |
|---|---|
| Common shares authorized to be awarded by the Management Recognition and Retention Plan | 903,003 |
| Common shares awarded by Management Recognition and Retention Plan | (797,350) |
| Common shares forfeited | -- |
| Shares available for award at March 31, 2005 | 105,653 |

The shares awarded by the MRRP vest to participants at the rate of 20% per year. As a result, expense for this plan is being recorded over a 60-month period and is based on the market value of the Company s stock as of the date the awards were made. The remaining unamortized cost of the MRRP shares acquired to date is reflected as a reduction in stockholders equity. Expense under the MRRP for the three months ended March 31, 2005 and March 31, 2004 was $719,000 and $682,000, respectively.

***Stock Option Plan.*** The Company established the 2003 Stock Option Plan ( SOP ) under which 2,257,508 shares of Company common stock are reserved for the grant of common stock options to directors, officers and employees. Stock options awarded under the SOP vest to participants at the rate of 20% per year. The exercise price of the options is equal to the fair market value of the common stock on the grant date.

| | **March 31, 2005** | | |
|---|---|---|---|
| | **Options Outstanding** | **Remaining Contractual Life** | **Options Exercisable** |
| Stock options issued and outstanding at an exercise price of $17.83 | 1,840,750 | 8.1 years | 366,550 |
| Stock options issued and outstanding at an exercise price of $22.40 | 45,000 | 9.6 years | -- |
| Stock options outstanding, end of period | 1,885,750 | -- | -- |
| Stock options remaining for future grants | 359,758 | | |

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

The Company accounts for its stock options in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ( APB No. 25 ). Under the provisions of APB No. 25, since the exercise price of the Company s employees stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. See Note 14 for additional information regarding stock options.

Pursuant to SFAS No. 123, *Accounting for Stock-Based Compensation*, pro forma net income and pro forma EPS are presented in the following table as if the fair value method of accounting for stock-based compensation plans had been utilized:

| | **Three Months Ended March 31,** | |
|---|---|---|
| ***(Dollars in thousands, except per share data)*** | **2005** | **2004** |
| Net income (as reported) | $ 7,178 | $ 6,060 |
| Add: stock-based employee compensation expense included in reported net income, net of related tax effects | 467 | 443 |
| Deduct: total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects | $ (749) | $ (715) |
| Pro forma net income | $ 6,896 | $ 5,788 |
| Basic earnings per share (as reported) | $ 0.44 | $ 0.34 |
| Pro forma basic earnings per share | 0.43 | 0.32 |
| Diluted earnings per share (as reported) | 0.43 | 0.33 |
| Pro forma diluted earnings per share | 0.42 | 0.32 |

The pro forma results above may not be representative of the effect on net income in future periods.

The fair value of each option grant is estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants during the years ended December 31, 2004 and December 31, 2003, respectively: dividend yield of 1.0% and 1.0%; expected volatility of 22.6% and 13.2%; risk-free interest rates of 4.0% and 3.5%; and an expected life of 8.0 years and 10.0 years.

**Note 12 Deposits**

The following table shows the composition of the Bank s deposits by type at the dates indicated:

| *(Dollars in thousands)* | March 31, 2005<br>Weighted Average Rates | March 31, 2005<br>Amount | December 31, 2004<br>Weighted Average Rates | December 31, 2004<br>Amount |
|---|---|---|---|---|
| **Transaction accounts:** | | | | |
| Noninterest-bearing checking | -- % | $112,827 | -- % | $112,216 |
| Savings | 0.61 | 75,977 | 0.65 | 79,546 |
| Interest-bearing checking | 0.67 | 398,951 | 0.67 | 414,093 |
| Money market | 1.43 | 317,391 | 1.09 | 291,111 |
| Total transaction accounts | 0.85 | 905,146 | 0.72 | 896,966 |
| **Time deposits:** | | | | |
| 0.00% to 2.99% | | 509,452 | | 589,373 |
| 3.00% to 4.99% | | 567,930 | | 364,400 |
| 5.00% to 6.99% | | 13,370 | | 14,022 |
| Total time deposits | 3.00 | 1,090,752 | 2.77 | 967,795 |
| Total deposits | 2.02% | $1,995,898 | 1.79% | $1,864,761 |

**Note 13 Federal Home Loan Bank Advances and Other Borrowings**

At March 31, 2005 and December 31, 2004, the Company was indebted on notes as shown in the following table:

| *(Dollars in thousands)* | March 31, 2005 | December 31, 2004 |
|---|---|---|

| | | | | |
|---|---|---|---|---|
| Permanent fixed-rate notes payable to the Federal Home Loan Bank | $ | 83,455 | $ | 83,819 |
| Convertible fixed-rate notes payable to the Federal Home Loan Bank | | 395,990 | | 426,045 |
| Line of credit with the Federal Home Loan Bank | | 153,600 | | 261,200 |
| Adjustable-rate note payable to the Federal Home Loan Bank | | 10,000 | | 10,000 |
| Retail repurchase agreements | | 26,992 | | 22,674 |
| Junior subordinated debentures | | 37,928 | | 37,928 |
| Total Federal Home Loan Bank advances and other borrowings | $ | 707,965 | $ | 841,666 |
| Weighted average interest rate | | 3.55% | | 3.25% |

The convertible fixed-rate notes are convertible to adjustable-rate notes at the option of the Federal Home Loan Bank ( FHLB ). The line of credit with the FHLB expires in November 2005. The Company expects the line of credit agreement with the FHLB to be renewed in the ordinary course of business.

## Note 14 Current Accounting Pronouncements

For discussion regarding accounting pronouncements, interpretations, exposure drafts and other formal accounting guidance and the impact on the Company, reference is made to the Company s Annual Report on Form 10-K for the year ended December 31, 2004. The following discussion identifies accounting guidance issued during 2005.

In December 2004, the Financial Accounting Standards Board ( FASB ) issued Statement No. 123 (revised 2004), *Share-Based Payment*, ( SFAS No. 123(R) ), which requires that the cost resulting from stock options be measured at fair value and recognized in earnings. SFAS No. 123(R) replaces Statement No. 123, *Accounting for Stock-Based Compensation*, ( SFAS No. 123 ) and supersedes APB No. 25 which permitted the recognition of compensation expense using the intrinsic value method. SFAS No. 123(R) will be effective July 1, 2005. However, on April 15, 2005, the SEC issued a press release announcing the amendment of the compliance date for SFAS No. 123(R) to be no later than the beginning of the first fiscal year beginning after June 15, 2005. The Company presently plans to adopt SFAS No. 123(R) on January 1, 2006. The method for adoption of this statement is yet to be determined. See Note 11 for SFAS No. 123 pro forma disclosures.

**Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations.**

**General**

TierOne Bank ( Bank ), a subsidiary of TierOne Corporation ( Company ), is a $3.0 billion federally chartered stock savings bank headquartered in Lincoln, Nebraska. Established in 1907, the Bank offers customers a wide variety of full-service consumer, commercial and agricultural banking products and services through a network of 68 banking offices located in Nebraska, Iowa and Kansas and eight loan production offices located in Arizona, Colorado, Florida, Minnesota and North Carolina. Product offerings include residential, commercial and agricultural real estate loans; consumer, construction, business and agricultural operating loans; warehouse mortgage lines of credit; consumer and business checking and savings plans; investment and insurance services; and telephone and internet banking.

The Company s results of operations depend, to a large extent, on net interest income, which is the difference between the income earned on its loan and investment securities portfolios and the cost of funds, consisting of the interest paid on deposits and borrowings. Noninterest income, noninterest expense and provisions for loan losses also affect results of operations. Noninterest income consists primarily of fees and service charges related to deposit and lending activities and gains on loans held for sale. Noninterest expense consists of compensation and employee benefits, office occupancy and equipment, data processing, advertising and other operating expense. The Company s results of operations are also significantly affected by general economic and competitive conditions, particularly changes in interest rates, government policies and actions of regulatory authorities. Future changes in applicable law, regulations or government policies may materially impact the Company s financial condition and results of operations.

As used in this report, unless the context otherwise requires, the terms we, us, or our refer to TierOne Corporation, a Wisconsin corporation, and our wholly owned subsidiary, TierOne Bank, a federally chartered stock savings bank.

**Forward-Looking Statements**

Statements contained in this quarterly report on Form 10-Q which are not historical facts may be forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ materially from those currently anticipated due to a number of factors. Factors which could result in material variations include, but are not limited to:

Changes in interest rates which could affect net interest margins and net interest income;

Competitive factors which could affect net interest income and noninterest income;

Changes in demand for loans, deposits and other financial services in the Company's market area;

Changes in asset quality and general economic conditions;

Unanticipated issues associated with the execution of the Company's strategic plan;

Unanticipated difficulties in realizing the growth opportunities and cost savings from recent acquisitions;

Unanticipated issues related to the resultant integration of recent acquisitions; and

Other factors discussed in documents filed by the Company with the Securities and Exchange Commission from time to time.

These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements. The Company undertakes no obligation, and disclaims any obligation, to update information contained in this quarterly report on Form 10-Q, including these forward-looking statements, to reflect events or circumstances that occur after the date of the filing of this quarterly report on Form 10-Q.

**TierOne Corporation and Subsidiaries**
**Management s Discussion and Analysis of Financial Condition**
**and Results of Operations**

**Comparison of Financial Condition at March 31, 2005 and December 31, 2004**

**Assets**

***General.*** Our total assets were $3.0 billion at March 31, 2005, a $7.3 million decrease from December 31, 2004. We continue to realign our balance sheet to focus our efforts on loans with relatively higher yields, adjustable interest rates and/or shorter terms to maturity while seeking to maintain a loan portfolio with a high level of asset quality.

***Investment Securities.*** Our available for sale investment securities amounted to $123.1 million at March 31, 2005, a $4.7 million, or 3.7%, decrease compared to $127.8 million at December 31, 2004. The decrease in our available for sale investment securities was primarily due to $6.3 million in proceeds from maturing and sold investment securities partially offset by a security purchase of $3.0 million. Our mortgage-backed securities portfolio, all of which are recorded as available for sale, amounted to $32.0 million at March 31, 2005, a $4.1 million, or 11.4%, decrease compared to $36.2 million at December 31, 2004. The decrease in our mortgage-backed securities portfolio was primarily the result of $3.9 million of principal payments received during the three months ended March 31, 2005.

***Loans Receivable.*** Net loans (after allowance for loan losses) totaled $2.6 billion at March 31, 2005, a $16.0 million, or 0.6%, increase compared to December 31, 2004. This increase is primarily attributable to increased originations in our residential construction, commercial real estate and land and commercial construction loan portfolios partially offset by declines in our second mortgage and multi-family residential loan portfolios. Commercial real estate and land loans amounted to $627.9 million, a $30.8 million, or 5.2%, increase compared to $597.1 million at December 31, 2004. Our residential construction loans totaled $634.2 million, a $33.2 million, or 5.5%, increase compared to $601.1 million at December 31, 2004. During the three months ended March 31, 2005, we originated $126.7 million and purchased $87.6 million of residential construction loans which were partially offset by payoffs on completed construction projects. Commercial construction loans increased $29.9 million, or 10.6%, to $312.3 million compared to $282.4 million at December 31, 2004. The increase is primarily attributable to increased origination of commercial construction loans in our primary lending market area (Nebraska, Iowa, Kansas, Arizona, Colorado, Florida, Minnesota and North Carolina). Second mortgage residential loans totaled $227.8 million at March 31, 2005, a $27.4 million, or 10.8%, decrease compared to $255.2 million at December 31, 2004. The decrease in our second mortgage residential loans during the three months ended March 31, 2005 was primarily attributable to principal payments and prepayments. Multi-family residential loans totaled $129.4 million at March 31, 2005, a $13.0 million, or 9.1%, decrease compared to $142.5 million at December 31, 2004.

The Bank s focus on loans with relatively higher yields, adjustable interest rates and/or shorter terms to maturity, as well as our expanded loan origination capabilities, contributed to $420.8 million of gross loan originations, exclusive of warehouse mortgage lines of credit and loan purchases, for the three months ended March 31, 2005. Gross originations do not directly correlate to net loans due to timing of construction loan advances, repayments and undisbursed lines of credit but reflect in part future loan commitments.

***Allowance for Loan Losses.*** Our allowance for loan losses increased $421,000, or 1.6%, to $27.3 million at March 31, 2005 compared to $26.8 million at December 31, 2004. Net charge-offs were $367,000 during the three months ended March 31, 2005, a decrease of $67,000, or 15.4%, compared to $434,000 for the three months ended March 31, 2004. Our ratio of the allowance for loan losses to net loans increased to 1.02% at March 31, 2005 compared to 1.01% at December 31, 2004.

***Goodwill and Other Intangible Assets.*** Our goodwill at March 31, 2005 was $42.3 million and relates to our acquisition of United Nebraska Financial Co. ( UNFC ) in 2004. Goodwill is subject to periodic impairment analysis which will be completed during the third quarter of 2005. Other intangible assets totaled $11.4 million at March 31, 2005, a decrease of $468,000, or 3.9%, compared to $11.9 million at December 31, 2004 and relates to core deposit intangible assets recorded as a result of the UNFC acquisition. The decrease is attributable to amortization during the three months ended March 31, 2005.

***Other Assets.*** Our other assets increased $952,000, or 4.0%, to $24.6 million at March 31, 2005 compared to $23.6 million at December 31, 2004. At March 31, 2005, the largest item recorded in other assets was mortgage servicing assets of $10.6 million. The remainder consists of prepaid expenses, miscellaneous receivables and other miscellaneous assets.

**Liabilities and Stockholders Equity**

***General.*** Our total liabilities were $2.8 billion at March 31, 2005, a $10.9 million, or 0.4%, decrease compared to December 31, 2004. We utilized our increased deposits to fund loan originations and purchase activities and reduce our FHLB advances and other borrowings.

***Deposits.*** Our total deposits increased by $131.1 million, or 7.0%, to $2.0 billion at March 31, 2005 compared to $1.9 billion at December 31, 2004. Time deposits increased $123.0 million, or 12.7%, to $1.1 billion at March 31, 2005 compared to $967.8 million at December 31, 2004. The increase in our time deposits was primarily the result of a promotion held during the three months ended March 31, 2005 to attract new deposit accounts and establish new customer relationships. Additionally, we have experienced increases in time deposits due to customers utilization of this product as interest rates have began to increase. Our interest-bearing checking accounts totaled $399.0 million, a $15.1 million, or 3.7%, decrease compared to $414.1 million at December 31, 2004. Our money market accounts, which also experienced an increase due to the rising interest rate environment, totaled $317.4 million, a $26.3 million, or 9.0%, increase compared to $291.1 million at December 31, 2004. Noninterest-bearing checking accounts totaled $112.8 million at March 31, 2005 compared to $112.2 million at December 31, 2004. Brokered time deposits (included in our time deposits) amounted to $125.9 million at March 31, 2005 compared to $124.6 million at December 31, 2004. We utilize brokered time deposits to fund loan origination and purchase activity.

***FHLB Advances and Other Borrowings.*** Our FHLB advances and other borrowings amounted to $708.0 million at March 31, 2005, an $133.7 million, or 15.9%, decrease compared to $841.7 million at December 31, 2004. The decrease in FHLB advances and other borrowings at March 31, 2005 is primarily attributable to our utilization of increased deposits to reduce our outstanding line of credit with the FHLB. Our outstanding line of credit with the FHLB was $153.6 million at March 31, 2005, a decrease of $107.6 million compared to $261.2 million at December 31, 2004. The weighted average rate of our FHLB advances and other borrowings was 3.55% at March 31, 2005, an increase of 30 basis points compared to 3.25% at December 31, 2004. The increase in the weighted average rate of our FHLB advances and other borrowings is primarily attributable to rising interest rates on our short-term advances and a change in the composition of our FHLB advances and other borrowings during the three months ended March 31, 2005.

***Stockholders Equity.*** At March 31, 2005, stockholders equity totaled $280.7 million, an increase of $3.6 million, or 1.3%, from December 31, 2004. The increase in stockholders equity primarily reflects net income of $7.2 million during the three months ended March 31, 2005, $917,000 related to common stock earned by participants in the Employee Stock Ownership Plan ( ESOP ) and $719,000 related to amortization of awards under the 2003 Management Recognition and Retention Plan ( MRRP ) partially offset by the purchase of 140,800 shares of common stock at a cost of $3.4 million, a $939,000 change in net unrealized losses in our available for sale investment securities portfolio and $835,000 in cash dividends paid to the Company s stockholders. The Company paid cash dividends of $0.05 per common share payable on March 31, 2005 to shareholders of record on March 15, 2005. For further discussion regarding the Company s common stock repurchases, see Part II, Item 2 Unregistered Sales of Equity Securities and Use of Proceeds .

**Comparison of Operating Results for the Three Months Ended March 31, 2005 and March 31, 2004**

***Net Income.*** Net income for the three months ended March 31, 2005 was $7.2 million, or $0.43 per diluted share ($0.44 per basic share), compared to net income of $6.1 million, or $0.33 per diluted share ($0.34 per basic share) for the three months ended March 31, 2004.

***Net Interest Income.*** Net interest income is the principal source of earnings for the Company, and consists primarily of interest income on loans receivable and investment and mortgage-backed securities, offset by interest expense on deposits and borrowed funds. Net interest income is determined by interest rate spread (i.e., the difference between the yields earned on interest-earning assets and the rates paid on interest-bearing liabilities) and also by the amount of interest-earning assets relative to interest-bearing liabilities. Generally, we are able to increase our net interest income at a faster pace when the spread between short-term and long-term U.S. Treasury rates is positive, due to funding costs being more directly tied to shorter-term rates, while loan rates are tied to intermediate to longer-term rates. Net interest income before provision for loan losses was $24.3 million for the three months ended March 31, 2005, an increase of $6.6 million, or 37.1%, compared to $17.7 million for the three months ended March 31, 2004. Our average interest rate spread for the three months ended March 31, 2005 and March 31, 2004 was 3.24% and 3.01%, respectively. The increase in our average interest rate spread is primarily attributable to a 32 basis point increase in the average yield earned on interest-earning assets to 5.62% for the three months ended March 31, 2005 compared to 5.30% for the three months ended March 31, 2004. Our net interest margin (net interest income divided by average interest-earning assets) for the same periods was 3.46% and 3.35%, respectively. The increase in net interest margin is primarily due to an increase in the average balance of interest-earning assets coupled with the increase in the average yield earned on interest-earning assets. The ratio of average interest-earning assets to average interest-bearing liabilities declined to 110.24% for the three months ended March 31, 2005 compared to 117.23% for the three months ended March 31, 2004. This decrease was the result of a $50.4 million decline in the average balance of net interest earning assets at March 31, 2005, resulting primarily from recognition of goodwill associated with the UNFC acquisition and the funding of the Company s stock repurchase program both of which are noninterest earning activities.

***Interest Income.*** Our total interest income for the three months ended March 31, 2005 was $39.5 million, an $11.4 million, or 40.6%, increase compared to $28.1 million for the three months ended March 31, 2004. Interest income on loans receivable increased $10.3 million, or 37.9%, to $37.5 million for the three months ended March 31, 2005 compared to $27.2 million for the three months ended March 31, 2004. Interest income on investment securities totaled $2.0 million for the three months ended March 31, 2005, an increase of $1.1 million, or 119.4%, compared to $927,000 for the three months ended March 31, 2004. The increase in interest income for the three months ended March 31, 2005 compared to the three months ended March 31, 2004 is primarily attributable to increases in the average balance of loans receivable and yields earned on loans receivable. The average balance of loans receivable during the three months ended March 31, 2005 was $2.6 billion, an increase of $574.7 million, or 28.4%, compared to $2.0 billion for the three months ended March 31, 2004. The weighted average yield earned on the loan portfolio was 5.76% and 5.36% for the three months ended March 31, 2005 and March 31, 2004, respectively. The increase in the average balance of loans receivable is the result of loans acquired from the UNFC acquisition and our loan origination and purchase activities. The increase in the average yield earned on loans receivable is the result of our strategy to realign our loan portfolio to increase our holdings of loans with relatively higher yields, adjustable interest rates and/or shorter terms to maturity.

***Interest Expense.*** Our total interest expense for the three months ended March 31, 2005 was $15.2 million, a $4.8 million, or 46.6%, increase compared to $10.3 million for the three months ended March 31, 2004. Interest expense on deposits totaled $8.9 million for the three months ended March 31, 2005, an increase of $3.2 million, or 57.4%, compared to $5.7 million for the three months ended March 31, 2004. Interest expense on FHLB advances and other borrowings increased $1.6 million, or 33.7%, to $6.3 million for the three months ended March 31, 2005 compared to $4.7 million for the three months ended March 31, 2004. The primary reasons for the increase in interest expense was a

$595.3 million increase in the average balance of interest-bearing deposits and an 11 basis point increase in the average rate paid on interest-bearing deposits. The average rate paid on interest-bearing deposits was 1.97% for the three months ended March 31, 2005 compared to 1.86% for the three months ended March 31, 2004. The increase in the average balance of interest-bearing deposits is primarily the result of the UNFC acquisition and continued emphasis on growing our deposit balances. The average balance of our FHLB advances and other borrowings was $743.5 million for the three months ended March 31, 2005, a $147.4 million, or 24.7%, increase compared to $596.1 million for the three months ended March 31, 2004. Additionally, the average rate paid on FHLB advances and other borrowings was 3.37% for the three months ended March 31, 2005 compared to 3.14% for the three months ended March 31, 2004. We utilized FHLB advances and other borrowings during 2004 as our primary funding source for loan portfolio growth and the UNFC acquisition.

**TierOne Corporation and Subsidiaries**
**Management s Discussion and Analysis of Financial Condition**
**and Results of Operations**

***Average Balances, Net Interest Income, Yields Earned and Cost of Funds.*** The following table shows for the periods indicated the total dollar amount of interest from average interest-earning assets and the resulting yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, interest rate spread and net interest margin. All average balances are based on daily balances.

| | **Three Months Ended March 31,** | | | | | |
|---|---|---|---|---|---|---|
| | **2005** | | | **2004** | | |
| ***(Dollars in thousands)*** | **Average Balance** | **Interest** | **Average Yield/Rate** | **Average Balance** | **Interest** | **Average Yield/Rate** |
| **Interest-earning assets:** | | | | | | |
| Investment securities (1) | $ 178,718 | $ 1,715 | 3.84% | $ 80,420 | $ 796 | 3.96% |
| Mortgage-backed securities (1) | 34,381 | 319 | 3.71 | 15,100 | 131 | 3.47 |
| Loans receivable (2) | 2,600,676 | 37,466 | 5.76 | 2,025,969 | 27,163 | 5.36 |
| Total interest-earning assets | 2,813,775 | 39,500 | 5.62% | 2,121,489 | 28,090 | 5.30% |
| Noninterest-earning assets | 196,235 | | | 88,988 | | |
| Total assets | $ 3,010,010 | | | $ 2,210,477 | | |
| **Interest-bearing liabilities:** | | | | | | |
| Interest-bearing checking accounts | $ 402,091 | $ 666 | 0.66% | $ 296,153 | $ 574 | 0.78% |
| Savings accounts | 77,849 | 121 | 0.62 | 20,414 | 16 | 0.31 |
| Money market accounts | 297,776 | 910 | 1.22 | 268,854 | 652 | 0.97 |
| Time deposits | 1,031,047 | 7,201 | 2.79 | 628,083 | 4,413 | 2.81 |
| Total interest-bearing deposits | 1,808,763 | 8,898 | 1.97 | 1,213,504 | 5,655 | 1.86 |
| Federal Home Loan Bank advances and other borrowings | 743,546 | 6,266 | 3.37 | 596,135 | 4,687 | 3.14 |
| Total interest-bearing liabilities | 2,552,309 | 15,164 | 2.38% | 1,809,639 | 10,342 | 2.29% |
| Noninterest-bearing accounts | 112,506 | | | 47,486 | | |
| Other liabilities | 64,445 | | | 56,241 | | |
| Total liabilities | 2,729,260 | | | 1,913,366 | | |
| Stockholders' equity | 280,750 | | | 297,111 | | |
| Total liabilities and stockholders' equity | $ 3,010,010 | | | $ 2,210,477 | | |

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| Net interest-earning assets | $ 261,466 | | | $ 311,850 | | |
| Net interest income; average interest rate spread | | $ 24,336 | 3.24% | | $ 17,748 | 3.01% |
| Net interest margin (3) | | | 3.46% | | | 3.35% |
| Average interest-earning assets to average interest-bearing liabilities | | | 110.24% | | | 117.23% |

(1) Includes securities available for sale and held to maturity. Investment securities also include Federal Home Loan Bank stock.

(2) Includes nonaccrual loans during the respective periods. Calculated net of unamortized premiums, discounts and deferred fees, undisbursed portion of construction and land development loans in process and allowance for loan losses.

(3) Equals net interest income (annualized) divided by average interest-earning assets.

***Rate/Volume Analysis.*** The following table shows the extent to which changes in interest rates and changes in the volume of interest-related assets and liabilities affected our interest income and expense during the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in rate (change in rate multiplied by prior year volume) and (ii) changes in volume (change in volume multiplied by prior year rate). The combined effect of changes in both rate and volume has been allocated proportionately to the change due to rate and the change due to volume.

| | Three Months Ended March 31, 2005 Compared to Three Months Ended March 31, 2004 | | |
|---|---|---|---|
| | Increase (Decrease) Due to | | Total Increase |
| *(Dollars in thousands)* | Rate | Volume | (Decrease) |
| **Interest income:** | | | |
| Investment securities | $ (25) | $ 944 | $ 919 |
| Mortgage-backed securities | 10 | 178 | 188 |
| Loans receivable (1) | 2,146 | 8,157 | 10,303 |
| Total interest income | 2,131 | 9,279 | 11,410 |
| **Interest expense:** | | | |
| Interest-bearing checking accounts | (97) | 189 | 92 |
| Savings accounts | 28 | 77 | 105 |
| Money market accounts | 182 | 76 | 258 |
| Time deposits | (31) | 2,819 | 2,788 |
| Total deposits | 82 | 3,161 | 3,243 |
| Federal Home Loan Bank advances and other borrowings | 361 | 1,218 | 1,579 |
| Total interest expense | 443 | 4,379 | 4,822 |
| Net change in net interest income | $ 1,688 | $ 4,900 | $ 6,588 |

(1) Calculated net of unamortized premiums, discounts and deferred fees, undisbursed portion of construction and land development loans in process and allowance for loan losses.

***Provision for Loan Losses.*** We made a provision for loan losses of $788,000 for the three months ended March 31, 2005 compared to $934,000 for the three months ended March 31, 2004, a decrease of $146,000, or 15.6%. We have made provisions in order to maintain the allowance for loan losses at a level we believe, to the best of our knowledge, covers all known and inherent losses in the portfolio that are both probable and reasonable to estimate at the relevant date. At March 31, 2005, our total nonperforming loans amounted to $10.0 million, or 0.37% of net loans, compared to $10.2 million, or 0.39% of net loans, at December 31, 2004. Our total nonperforming assets totaled $10.4 million, or 0.34%, of total assets at March 31, 2005, compared to $10.6 million, or 0.35%, of total assets at December 31, 2004. During the three months ended March 31, 2005 and March 31, 2004, we charged-off, net of recoveries, $367,000 and $434,000, respectively, primarily related to automobile and other consumer-related loans. At March 31, 2005, December 31, 2004 and March 31, 2004, our allowance for loan losses amounted to 1.02%, 1.01% and 0.96%, respectively, of net loans.

***Noninterest Income.*** Our noninterest income increased by $534,000, or 9.8%, to $6.0 million for the three months ended March 31, 2005 compared to $5.4 million for the three months ended March 31, 2004. The favorable increase in noninterest income was primarily attributable to an increase in fees and charges associated with additional products and services provided to new and existing customers. The increase in noninterest income was primarily the result of a $960,000 increase in non-deposit and lending related fees, a $717,000 increase in deposit account related fees and a $155,000 net gain on loans held for sale. The increase in noninterest income was partially offset by a one-time gain recorded during the three months ended March 31, 2004 related to the merger of the Bank s defined benefit pension plan with an unrelated third party plan. This transaction resulted in a $1.5 million pre-tax gain for the three months ended March 31, 2004 from the curtailment of the liability associated with the plan.

***Noninterest Expense.*** Our noninterest expense increased by $5.4 million, or 43.2%, to $18.0 million for the three months ended March 31, 2005 compared to $12.6 million for the three months ended March 31, 2004. The increases in noninterest expense primarily related to the UNFC acquisition completed in August 2004. The increase during the three month period ended March 31, 2005 compared to the three month period ended March 31, 2004 resulted primarily from a $2.4 million increase in compensation expense and employee benefits, a $2.1 million increase in other operating expenses and a $722,000 increase in net occupancy expenses.

***Income Tax Expense.*** Our income tax expense increased by $712,000 to $4.3 million for the three months ended March 31, 2005 compared to $3.6 million for the same period in 2004 due to an increase in net income and an increase in our effective income tax rate. The effective income tax rate for the three months ended March 31, 2005 was 37.5% compared to 37.3% for the three months ended March 31, 2004.

## Liquidity

Our primary sources of funds are deposits, amortization of loans, loan prepayments and maturity of loans, mortgage-backed securities and other investments and other funds provided from operations. While scheduled payments from the amortization of loans and mortgage-backed securities and maturing investment securities are relatively predictable sources of funds, deposit flows and loan and mortgage-backed securities prepayments can be greatly influenced by general interest rates, economic conditions and competition. Additionally, we utilize FHLB advances, brokered time deposits and available for sale loans as additional funding sources.

We use our liquidity to fund existing and future loan commitments, maturing time deposits and demand deposit withdrawals, to invest in other interest-earning assets and to meet operating expenses. At March 31, 2005, we had time deposits maturing within the next 12 months totaling $596.9 million. Based upon historical experience, we anticipate that a significant portion of the maturing time deposits will be redeposited with us.

In addition to cash flow from loan and securities payments and prepayments, we have additional borrowing capacity available to fund our asset growth. We continue to utilize borrowings as a cost efficient addition to deposits as a source of funds. The average balance of our FHLB advances and other borrowings was $743.5 million and $596.1 million for the three months ended March 31, 2005 and March 31, 2004, respectively. To date, substantially all of our borrowings have consisted of advances from the FHLB, of which we are a member. Pursuant to blanket collateral agreements with the FHLB, the Bank pledged qualifying residential, multi-family residential and commercial real estate mortgages, residential construction, commercial construction and agricultural real estate loans as collateral for such advances. Other qualifying collateral can be pledged in the event additional borrowing capacity is required.

**Contractual Obligations, Commitments, Contingent Liabilities and Off-Balance Sheet Arrangements**

We use our liquidity to fund existing and future loan commitments, to fund maturing time deposits and demand deposit withdrawals, to invest in other interest-earning assets and to meet operating expenses. At March 31, 2005, we had the following contractual obligations (excluding bank deposits and interest) and lending commitments:

| | | **Due In** | | | |
|---|---|---|---|---|---|
| *(Dollars in thousands)* | **Total at March 31, 2005** | **1 Year** | **1-3 Years** | **3-5 Years** | **After 5 Years** |
| **Contractual obligations:** | | | | | |
| Federal Home Loan Bank advances and other borrowings | $ 707,965 | $ 232,600 | $ 92,017 | $ 80,348 | $ 303,000 |
| Recourse obligations on assets | 14,631 | 14,631 | -- | -- | -- |
| Purchase investment securities | 1,571 | 1,571 | -- | -- | -- |
| Annual rental commitments under non-cancellable operating leases | 4,259 | 825 | 1,231 | 825 | 1,378 |
| Total contractual obligations | $ 728,426 | $ 249,627 | $ 93,248 | $ 81,173 | $ 304,378 |
| **Lending commitments:** | | | | | |
| Commitments to originate loans | $ 150,125 | $ 150,125 | $ -- | $ -- | $ -- |
| Commitments to sell loans | (46,984) | (46,984) | -- | -- | -- |
| Commitments to purchase loans | 28,123 | 28,123 | -- | -- | -- |
| Undisbursed portion of construction and land development loans in process | 457,293 | 457,293 | -- | -- | -- |
| Standby letters of credit | 2,049 | 2,049 | -- | -- | -- |
| **Unused lines of credit:** | | | | | |
| Warehouse mortgage lines of credit | 390,405 | 390,405 | -- | -- | -- |
| Business loans | 138,242 | 138,242 | -- | -- | -- |
| Consumer loans | 124,415 | 124,415 | -- | -- | -- |
| Total lending commitments and unused lines of credit | $ 1,243,668 | $ 1,243,668 | $ -- | $ -- | $ -- |

We have not used any significant off-balance sheet financing arrangements for liquidity purposes or otherwise. Our primary financial instruments with off-balance sheet risk are limited to loan servicing for others, our obligations to fund loans to customers pursuant to existing commitments and commitments to purchase and sell mortgage loans. In addition, we have certain risks due to limited recourse arrangements on loans serviced for others and recourse obligations related to loan sales. At March 31, 2005, the maximum total dollar amount of such recourse was approximately $14.0 million. Based on historical experience, at March 31, 2005, we had established a liability of $737,000 with respect to this recourse obligation. In addition, we have not had, and have no intention to have, any significant transactions, arrangements or other relationships with any unconsolidated, limited purpose entities.

### Regulatory Capital

At March 31, 2005, the Bank s regulatory capital exceeded regulatory limits set by the Office of Thrift Supervision. The current regulatory requirements and the Bank s actual levels at March 31, 2005 are set forth in the following table:

| | Required Capital | | Actual Capital | | Excess Capital | |
|---|---|---|---|---|---|---|
| ***(Dollars in thousands)*** | **Amount** | **Percent** | **Amount** | **Percent** | **Amount** | **Percent** |
| Tangible capital | $ 44,766 | 1.50% | $ 239,313 | 8.02% | $ 194,547 | 6.52% |
| Tier 1 (core) capital | 119,376 | 4.00% | 239,313 | 8.02% | 119,937 | 4.02% |
| Total risk-based capital | 207,726 | 8.00% | 266,565 | 10.27% | 58,839 | 2.27% |

The Bank remains classified as a well capitalized financial institution under Federal regulatory guidelines.

### Selected Operating Ratios

Selected operating and other ratios (annualized where appropriate) at or for the three months ended March 31, 2005 and March 31, 2004 are presented in the following table:

| | At or for the Three Months Ended March 31, | |
|---|---|---|
| | **2005** | **2004** |

| | At or for the Three Months Ended March 31, | |
|---|---|---|
| **Selected Operating Ratios:** | | |
| Average yield on interest-earning assets | 5.62% | 5.30% |
| Average rate on interest-bearing liabilities | 2.38 | 2.29 |
| Average interest rate spread | 3.24 | 3.01 |
| Net interest margin | 3.46 | 3.35 |
| Average interest-earning assets to average interest-bearing liabilities | 110.24 | 117.23 |
| Net interest income after provision for loan losses to noninterest expense | 130.58 | 133.49 |
| Total noninterest expense to average assets | 2.40 | 2.28 |
| Efficiency ratio (1) | 59.50 | 54.32 |
| Return on average assets | 0.95 | 1.10 |
| Return on average equity | 10.23 | 8.16 |
| Average equity to average assets | 9.33 | 13.44 |
| **Other Ratios:** | | |
| Nonperforming loans as a percent of net loans | 0.37 | 0.15 |
| Nonperfoming assets as a percent of total assets | 0.34 | 0.18 |
| Allowance for loan losses as a percent of nonperforming loans | 273.01 | 622.05 |
| Allowance for loan losses as a percent of net loans | 1.02 | 0.96 |

(1) Efficiency ratio is calculated as total noninterest expense divided by the sum of net interest income and total noninterest income

## Item 3 Quantitative and Qualitative Disclosures About Market Risk.

For a discussion of our asset and liability management policies as well as the methods used to manage our exposure to the risk of loss from adverse changes in market prices and rates market, see Management s Discussion and Analysis of Financial Condition and Results of Operations How We Manage Our Risks and Quantitative and Qualitative Disclosures About Market Risk in the Company s Annual Report on Form 10-K for the year ended December 31, 2004. There has been no material change in our market risk position since our prior disclosures.

## Item 4 Controls and Procedures.

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of the date of such evaluation to ensure that material information relating to us, including our consolidated subsidiaries, was made known to them by others within those entities, particularly during the period in which this report was being prepared. There was no change in our internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II OTHER INFORMATION

### Item 1 Legal Proceedings.

There have been no substantive changes with respect to legal proceedings during the three months ended March 31, 2005. Disclosures regarding legal proceedings are incorporated by reference to Part I, Item 3. Legal Proceedings in the Company s Annual Report on Form 10-K for the year ended December 31, 2004.

### Item 2 Unregistered Sales of Equity Securities and Use of Proceeds.

The following table details the Company s purchases of common stock during the three months ended March 31, 2005:

| | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs* | Maximum Number of Shares that May Yet Be Purchased Under Plans or Programs |
|---|---|---|---|---|
| **January 2005** | | | | |
| Beginning Date - January 1, 2005 | | | | |
| Ending Date - January 31, 2005 | -- | -- | -- | 1,828,581 |
| **February 2005** | | | | |
| Beginning Date - February 1, 2005 | | | | |
| Ending Date - February 28, 2005 | -- | -- | -- | 1,828,581 |
| **March 2005** | | | | |
| Beginning Date - March 1, 2005 | | | | |
| Ending Date - March 31, 2005 | 140,800 | $24.22 | 140,800 | 1,687,781 |
| Total shares purchased during the three months ended March 31, 2005 | 140,800 | $24.22 | | |

* Information related to the Company s publicly announced plan authorizing purchases of its common stock during the three months ended March 31, 2005, is as follows:

| Date Purchase Plan Announced | Number of Shares Approved for Purchase | Expiration Date of Purchase Plan |
|---|---|---|
| July 27, 2004 | 1,828,581 | No stated expiration date |

### Item 3 Defaults Upon Senior Securities.

There are no matters required to be reported under this item.

### Item 4 Submission of Matters to a Vote of Security Holders.

There are no matters required to be reported under this item.

### Item 5 Other Information.

There are no matters required to be reported under this item.

**Item 6 Exhibits.**

The exhibits filed or incorporated as part of this Form 10-Q are specified in the Exhibit Index.

## SIGNATURES

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

**TIERONE CORPORATION**

Date: May 5, 2005

By:/s/ Gilbert G. Lundstrom
Gilbert G. Lundstrom
Chairman of the Board and Chief Executive Officer

Date: May 5, 2005

By:/s/ Eugene B. Witkowicz
Eugene B. Witkowicz
Executive Vice President and
Chief Financial Officer

## EXHIBIT INDEX

| No. | Exhibits |
|---|---|
| 31.1 | Section 302 Certification of the Chief Executive Officer |
| 31.2 | Section 302 Certification of the Chief Financial Officer |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

44

t-family:inherit;font-size:10pt;font-weight:bold;">41,300

$
58,225

Denominator:

Weighted-average common shares for calculating basic earnings per share

28,019

28,397

28,206

28,762

Effect of dilutive securities:

Stock options and nonvested awards

205

408

212

398

Weighted-average common shares for calculating diluted earnings per share

28,224

28,805

28,418

29,160

Basic earnings per share:

| | | | | |
|---|---|---|---|---|
| Income from continuing operations | $ 0.40 | $ 0.69 | $ 1.46 | $ 2.03 |
| Loss from discontinued operations | — | — | — | (0.01 ) |
| Net income per basic share | $ 0.40 | $ 0.69 | $ 1.46 | $ 2.02 |

Diluted earnings per share:

Income from continuing operations

$
0.40

$
0.68

$
1.45

$
2.01

Loss from discontinued operations

—

—

—

(0.01
)

Net income per diluted share

$
0.40

$
0.68

$
1.45

$
2.00

Note 3 - Acquisitions

The Company completed acquisitions during the nine months ended September 30, 2015 as described below consistent with its strategy to continue its expansion of pawn stores in selected markets. The purchase price of each acquisition was allocated to assets and liabilities acquired based upon their estimated fair market values at the date of acquisition. The excess purchase price over the estimated fair market value of the net assets acquired has been recorded as goodwill. The goodwill arising from these acquisitions consists largely of the synergies and economies of scale expected from combining the operations of the Company and the pawn stores acquired.

During the nine months ended September 30, 2015, 30 pawn stores located in five U.S. states were acquired by the Company in five separate asset purchase transactions (“U.S. Acquisitions”) for an aggregate purchase price of $33,240,000, net of cash acquired, and was composed of $32,090,000 in cash and payables to the sellers of $1,150,000. During the nine months ended September 30, 2015, the Company also paid $925,000 of purchase price amounts payable related to prior-year acquisitions.

The preliminary allocations of the purchase prices for the U.S. Acquisitions are as follows (in thousands):

| | U.S. Acquisitions |
|---|---|
| Pawn loans | $3,438 |
| Pawn loan fees and service charges receivable | 204 |
| Inventory | 2,608 |
| Other current assets | 9 |
| Property and equipment | 310 |
| Goodwill (1) | 26,506 |
| Intangible assets (2) | 513 |
| Other non-current assets | 5 |
| Current liabilities | (353 ) |
| Purchase price | $33,240 |

(1) Substantially all of the goodwill is expected to be deductible for U.S. income tax purposes.

(2) Intangible assets primarily consist of customer relationships, which are included in other non-current assets in the accompanying condensed consolidated balance sheets. Customer relationships are generally amortized over five years.

During the nine months ended September 30, 2015, revenue from the U.S. Acquisitions since the acquisition dates was $5,498,000. During the nine months ended September 30, 2015, the net loss from the U.S. Acquisitions since the acquisition dates (including acquisition and integration costs) was $349,000. Combined transaction and integration costs related to acquisitions during the nine months ended September 30, 2015 were approximately $1,175,000, which are primarily included in administrative expenses in the accompanying condensed consolidated statements of income.

Note 4 - Long-Term Debt

Senior Unsecured Notes

On March 24, 2014, the Company issued $200,000,000 of 6.75% senior notes due on April 1, 2021 (the “Notes”). Interest on the Notes is payable semi-annually in arrears on April 1 and October 1. The Notes permit the Company to make certain restricted payments, such as repurchasing shares of its stock and paying cash dividends, within certain parameters, the most restrictive of which generally limits such restricted payments to 50% of adjusted net income.

Revolving Credit Facilities

At September 30, 2015, the Company maintained a line of credit with a group of U.S. based commercial lenders (the “2014 Credit Facility”) in the amount of $160,000,000, which matures in February 2019. At September 30, 2015, the Company had $68,500,000 outstanding under the 2014 Credit Facility and $91,500,000 was available for borrowings. The 2014 Credit Facility bears interest, at the Company’s option, at either (i) the prevailing London Interbank Offered Rate (“LIBOR”) (with interest periods of 1, 2, 3 or 6 months at the Company’s option) plus a fixed spread of 2.5% or (ii) the prevailing prime or base rate plus a fixed spread of 1.5%. The interest rate on amounts outstanding under the 2014 Credit Facility at September 30, 2015 was 2.75% based on the prevailing 30-day LIBOR rate. The 2014 Credit Facility requires the Company to maintain certain financial ratios and comply with certain financial covenants and allows the Company to make certain restricted payments, such as repurchasing shares of its stock and paying cash dividends, within certain parameters, provided the Company maintains compliance with those financial ratios and covenants after giving effect to such restricted payments. The Company was in compliance with the requirements and covenants of the 2014 Credit Facility as of September 30, 2015. During the nine months ended September 30, 2015, the Company had net proceeds of $46,100,000 from borrowings pursuant to the 2014 Credit Facility.

On March 9, 2015, the Company entered into an agreement with a bank in Mexico to establish a revolving credit facility (the “Mexico Credit Facility”) in the amount of $10,000,000. The Mexico Credit Facility bears interest at the prevailing 30-day LIBOR rate plus a fixed spread of 2.0% and matures in December 2017. Under the terms of the Mexico Credit Facility, the Company is required to maintain certain financial ratios and comply with certain financial covenants. The Company was in compliance with the requirements and covenants of the Mexico Credit Facility as of September 30, 2015. The Company is required to pay a one-time commitment fee of $25,000 due when the first amount is drawn/borrowed. At September 30, 2015, the Company had no amount outstanding under the Mexico Credit Facility and $10,000,000 was available for borrowings.

Table of Contents

Note 5 - Fair Value of Financial Instruments

The fair value of financial instruments is determined by reference to various market data and other valuation techniques, as appropriate. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels. The three fair value levels are (from highest to lowest):

Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs that are not corroborated by market data.

As cash and cash equivalents have maturities of less than three months, the carrying values of cash and cash equivalents approximate fair value (Level 1 of the fair value hierarchy). Due to their short-term maturities, pawn loans, consumer loans (net), pawn loan fees and service charges receivable approximate fair value (Level 3 of the fair value hierarchy).

The carrying value of the 2014 Credit Facility and the Mexico Credit Facility approximated fair value for all periods presented. The fair value of the Notes was approximately $201,000,000, $209,000,000 and $207,000,000 as of September 30, 2015, 2014 and December 31, 2014, respectively, compared to a carrying value of $200,000,000. These fair values have been estimated based on a discounted cash flow analysis using a discount rate representing the Company's estimate of the rate that would be used by market participants (Level 2 of the fair value hierarchy). Changes in assumptions or estimation methodologies may have a material effect on these estimated fair values.

Note 6 - Goodwill

Changes in the carrying value of goodwill for the nine months ended September 30, 2015 were as follows:

| | | |
|---|---|---|
| Balance at December 31, 2014 | $ 276,882 | |
| Acquisitions (Note 3) | 26,506 | |
| Goodwill impairment - U.S. consumer loan operations | (7,913 | ) |
| Effect of foreign currency translation | (4,621 | ) |
| Other adjustments | 923 | |
| Balance at September 30, 2015 | $ 291,777 | |

The Company performs its goodwill impairment assessment annually as of December 31, and between annual assessments if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. The Company's reporting units, which are tested for impairment, are U.S. pawn operations, U.S. consumer loan operations and Mexico pawn and consumer loan operations. The Company assesses goodwill for impairment at a reporting unit level by initially assessing a range of qualitative factors, including, but not limited to, macroeconomic conditions, industry conditions, the competitive environment, changes in the market for the Company's products and services, regulatory and political developments, entity specific factors, such as strategy and changes in key personnel, and overall financial performance. If, after completing this assessment, it is determined that it is more likely than not that the fair value of a reporting unit is less than its carrying value, the Company proceeds to the two-step impairment testing methodology.

The first step is a comparison of the reporting unit's fair value to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and no further testing is required. If the fair value of the reporting unit is less than its carrying value, there is an indication that impairment may exist and the second step must be performed to measure the amount of impairment loss. In the second step, the fair value of the reporting unit is allocated to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical analysis that calculates the implied fair value of goodwill in the same manner as if the reporting unit was being acquired in a business combination. If the implied fair value of the reporting unit's goodwill is less than its carrying value, the difference is recorded as an impairment charge.

During the third quarter of 2015, the Company determined that sufficient indicators of potential impairment existed to require an interim goodwill impairment analysis for the U.S. consumer loan operations reporting unit. These indicators included, among others, the impacts of recently enacted and additional proposed local, state and federal regulatory restrictions affecting short-term and long-term profitability expectations for payday and title lending products, the Company’s long-term ongoing strategy to reduce non-core consumer lending operations along with significant deterioration in payday lending market conditions. Due to the aforementioned indicators, the Company concluded that it was more likely than not that the fair value of the U.S. consumer loan operations reporting unit was less than the carrying value.

The Company estimated fair value of the U.S. consumer loan operations reporting unit by applying a multiple to the reporting units' forecast earnings before interest, taxes, depreciation and amortization, as this is a common valuation technique within the consumer loan industry (the inputs used in the fair value calculation are significant unobservable inputs, or Level 3 inputs, in the fair value hierarchy). The resulting estimated fair value of the reporting unit was less than its carrying value and after performing the second step in the goodwill impairment testing methodology, the Company determined there was no material implied goodwill.

As a result, a $7,913,000 goodwill impairment charge was recorded in the third quarter of fiscal 2015, which is included as goodwill impairment - U.S. consumer loan operations in the accompanying condensed consolidated statements of operations. As of September 30, 2015, the Company has no remaining goodwill or other intangible assets associated with its U.S. consumer loan operations reporting unit.

Note 7 - Condensed Consolidating Guarantor Financial Statements

In connection with the issuance of the Notes, certain of the Company's domestic subsidiaries (collectively, "Guarantor Subsidiaries"), fully, unconditionally, jointly and severally guaranteed the payment obligations under the Notes. Each of the Guarantor Subsidiaries is 100% owned, directly or indirectly, by the Company. The following supplemental financial information sets forth, on a consolidating basis, the balance sheets, statements of comprehensive income (loss) and statements of cash flows of First Cash Financial Services, Inc. (the "Parent Company"), the Guarantor Subsidiaries and the Parent Company's other subsidiaries (the "Non-Guarantor Subsidiaries").

The supplemental condensed consolidating financial information has been prepared pursuant to SEC rules and regulations for interim condensed financial information and does not include the more complete disclosures included in annual financial statements. Investments in consolidated subsidiaries have been presented under the equity method of accounting. The principal eliminating entries eliminate investments in subsidiaries, intercompany balances and intercompany revenues and expenses. The condensed financial information may not necessarily be indicative of the results of operations or financial position had the Guarantor Subsidiaries or Non-Guarantor Subsidiaries operated as independent entities.

Table of Contents

Condensed Consolidating Balance Sheet
September 30, 2015
(unaudited, in thousands)

| | Parent Company | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Eliminations | Consolidated |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Cash and cash equivalents | $ 9,581 | $2,628 | $ 60,314 | $— | $72,523 |
| Pawn loan fees and service charges receivable | — | 6,435 | 11,681 | — | 18,116 |
| Pawn loans | — | 55,029 | 73,341 | — | 128,370 |
| Consumer loans, net | — | 580 | 534 | — | 1,114 |
| Inventories | — | 37,495 | 60,693 | — | 98,188 |
| Prepaid expenses and other current assets | 4,420 | — | 1,785 | (390) | 5,815 |
| Deferred tax assets | 1,069 | — | 5,563 | — | |

| | | | |
|---|---|---|---|
| Amortization of deferred income | (39) | (22) | (26) |
| Provision for loan and realty losses (recoveries) | (1,077) | - | (24,238) |
| Impairment of real estate assets in discontinued operations | 25 | 1,986 | - |
| Net gain on dispositions and deconsolidations of discontinued operations | - | - | (13,138) |
| Gain on asset disposals in non-operating income | - | - | (42) |
| Gain on payoff of note receivable | - | - | (468) |
| Share-based compensation | 853 | 7 | 543 |
| Other-than-temporary impairment of | - | 2,065 | - |

| | | | |
|---|---|---|---|
| marketable securities | | | |
| Net realized (gain) loss on sales of marketable securities | (2,404) | 410 | (1,029) |
| Deferred income | 959 | - | - |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (455) | 167 | (204) |
| Deferred costs and other assets | 15 | 173 | (618) |
| Accounts payable and accrued expenses | (1,605) | (3,120) | (2,512) |
| Net cash provided by operating activities | 69,212 | 67,134 | 66,529 |
| Cash flows from investing activities: | | | |
| Investment in mortgage and notes receivable | (4,501) | - | (9,716) |
| Collections of mortgage and notes receivable | 16,652 | 33,015 | 9,245 |
| Prepayment of mortgage notes receivable | 2,978 | - | 49,873 |
| Acquisition of real estate properties | (81,569) | (4,048) | (2,491) |
| Proceeds from disposition of real estate properties | 175 | 42 | 2,337 |
| Cash balances deconsolidated from discontinued operations | - | - | (14,079) |
| Acquisition of marketable securities | (274) | - | (351,747) |
| Proceeds from sales of marketable securities | 11,261 | 23,164 | 338,009 |
| Net cash (used in) provided by investing activities | (55,278) | 52,173 | 21,431 |
| Cash flows from financing activities: | | | |
| Principal payments on notes and bonds | (3,987) | (5,525) | (103,980) |

| | | | | |
|---|---|---|---|---|
| Dividends paid to stockholders | | (64,549) | (85,520) | (67,439) |
| Stock options exercised | | 78 | 245 | - |
| Repurchase of common stock | | - | (3,621) | - |
| Net cash used in financing activities | | (68,458) | (94,421) | (171,419) |
| | | | | |
| Increase (decrease) in cash and cash equivalents | | (54,524) | 24,886 | (83,459) |
| Cash and cash equivalents, beginning of year | | 100,242 | 75,356 | 158,815 |
| Cash and cash equivalents, end of year | $ | 45,718 | $ 100,242 | $ 75,356 |

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

Table of Contents

## NATIONAL HEALTH INVESTORS, INC.
## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

*(in thousands, except share and per share amounts)*

| | Common Stock | | Capital in Excess of | Cumulative | Cumulative | Unrealized (Losses) Gains on Marketable | Total Stockholders |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Par Value | Net Income | Dividends | Securities | Equity |
| Balances at December 31, 2006 | 27,752,239 | $ 278 | $ 461,735 | $ 682,437 | $ (730,562) | $ 17,783 | $ 431,671 |
| Comprehensive income: | | | | | | | |
| Net income | - | - | - | 96,435 | - | - | 96,435 |
| Other comprehensive income (loss): | | | | | | | |
| Unrealized holding loss arising during period | - | | | | | (2,386) | (2,386) |
| Less: reclassification adjustment for losses included in net income | - | | | | | (1,029) | (1,029) |
| Net loss recognized in other comprehensive income | | | | | | (3,415) | (3,415) |
| Total comprehensive income | | | | | | | 93,020 |
| Share-based compensation | - | - | 543 | - | - | - | 543 |
| Cash dividends: | | | | | | | |
| Dividends to common stockholders, $2.85 per share | - | - | - | - | (79,096) | - | (79,096) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Balances at December 31, 2007 | 27,752,239 | 278 | 462,278 | 778,872 | (809,658) | 14,368 | 446,138 |
| Comprehensive income: | | | | | | | |
| Net income | - | - | - | 57,510 | - | - | 57,510 |
| Other comprehensive income (loss): | | | | | | | |
| Unrealized holding loss arising during period | - | | | | | (6,055) | (6,055) |
| Less: reclassification adjustment for losses included in net income | - | | | | | 2,475 | 2,475 |
| Net loss recognized in other comprehensive income | | | | | | (3,580) | (3,580) |
| Total comprehensive income | | | | | | | 53,930 |
| Shares repurchased and retired | (194,100) | (2) | (3,619) | - | - | - | (3,621) |
| Shares issued: | | | | | | | |
| Stock options exercised | 51,680 | - | 245 | - | - | - | 245 |
| Restricted stock grants | 25,000 | - | - | - | - | - | - |
| Restricted stock forfeitures | (54,500) | - | - | - | - | - | - |
| Share-based compensation | - | - | 7 | - | - | - | 7 |
| Cash dividends: | | | | | | | |
| Dividends to common stockholders, $2.42 per share | - | - | - | - | (67,084) | - | (67,084) |
| Balances at December 31, 2008 | 27,580,319 | 276 | 458,911 | 836,382 | (876,742) | 10,788 | 429,615 |
| Comprehensive income: | | | | | | | |
| Net income | - | - | - | 64,229 | - | - | 64,229 |
| Other comprehensive income (loss): | | | | | | | |
| Unrealized holding gain arising during period | - | - | - | - | - | 4,462 | 4,462 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Less: reclassification adjustment for gains included in net income | - | - | - | - | - | (1,147) | (1,147) |
| Net gain recognized in other comprehensive income | | | | | | 3,315 | 3,315 |
| Total comprehensive income | | | | | | | 67,544 |
| Shares issued: | | | | | | | |
| Stock options exercised | 49,186 | - | 78 | - | - | - | 78 |
| Share-based compensation | - | - | 853 | - | - | - | 853 |
| Cash dividends: | | | | | | | |
| Dividends to common stockholders, $2.30 per share | - | - | - | - | (63,478) | - | (63,478) |
| Balances at December 31, 2009 | 27,629,505 | $ 276 | $ 459,842 | $ 900,611 | $ (940,220) | $ 14,103 | $ 434,612 |

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

Table of Contents

## NATIONAL HEALTH INVESTORS, INC.

## Notes to Consolidated Financial Statements

### NOTE 1. ORGANIZATION

National Health Investors, Inc. ("NHI" or the "Company"), a Maryland corporation incorporated on July 24, 1991, is a real estate investment trust ( REIT ). Our revenue is derived primarily from rent generated on leased properties, interest income on mortgage loans and income on other investments. We invest in health care properties including long-term care centers, acute care hospitals, medical office buildings, assisted living facilities and independent living facilities. These properties are located in 20 states throughout the U.S. and are operated by qualified health care providers.

### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Basis of Presentation* The consolidated financial statements include our accounts and our subsidiaries, all of which are wholly-owned. Significant intercompany balances and transactions have been eliminated.

*Use of Estimates* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Real Estate Properties* We record properties at cost, including capitalized interest during construction periods. We use the straight-line method of depreciation for buildings and improvements over their estimated useful lives as follows:

| | |
|---|---|
| Buildings | 40 years |
| Improvements | 3 to 25 years |

We evaluate the recoverability of the carrying values of our properties on a property-by-property basis. On a quarterly basis, we review our properties for recoverability when events or circumstances, including significant physical changes in the property, significant adverse changes in general economic conditions and significant deteriorations of the underlying cash flows of the property, indicate that the carrying amount of the property may not be recoverable. The need to recognize an impairment is based on estimated undiscounted future cash flows from a property compared to the carrying value of that property. If recognition of an impairment is necessary, it is measured as the amount by which the carrying amount of the property exceeds the fair value of the property. We have reclassified for all periods presented the operations of the facilities meeting the accounting criteria as either being sold or held for sale as discontinued operations in the Consolidated Statements of Income. Long-lived assets classified as held for sale are reported separately in the Consolidated Balance Sheet and are carried at the lower of their amortized cost or fair value, less the cost to sell. There was no change to reported net income for the prior periods as a result of this reclassification.

*Mortgage and Notes Receivable* We evaluate the carrying values of our mortgage notes receivable on an instrument-by-instrument basis. On a quarterly basis, we review our notes receivable for recoverability when events or circumstances, including the non-receipt of principal and interest payments, significant deteriorations of the financial condition of the borrower and significant adverse changes in general economic conditions, indicate that the carrying amount of the note receivable may not be recoverable. If necessary, an impairment is measured as the amount by which the carrying amount exceeds the discounted cash flows expected to be received under the note receivable or, if foreclosure is probable, the fair value of the collateral securing the note receivable.

*Cash Equivalents* Cash equivalents consist of all highly liquid investments with an original maturity of three months or less.

*Federal Income Taxes* We intend at all times to qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. Therefore, we will not be subject to federal income tax provided we distribute at least 90% of our REIT taxable income to our stockholders and meet other requirements to continue to qualify as a REIT. Accordingly, no provision for federal income taxes has been made in the consolidated financial statements. Our failure to continue to qualify under the applicable REIT qualification rules and regulations would have a material adverse impact on our financial position, results of operations and cash flows.

Earnings and profits, which determine the taxability of dividends to stockholders, differ from net income reported for financial reporting purposes due primarily to differences in the basis of assets, recognition of commitment fees, estimated useful lives used

to compute depreciation expense and in the treatment of accrued interest expense that existed at the time debentures were converted to common stock.

Our tax returns filed for years beginning in 2006 are subject to examination by taxing authorities. We classify interest and penalties related to uncertain tax positions, if any, in our consolidated financial statements as a component of general and administrative expense**.**

*Concentration of Credit Risks* Our credit risks primarily relate to cash and cash equivalents, investments in high yielding cash funds, and investments in preferred stock, mortgages and other notes receivable. Cash and cash equivalents are primarily held in bank accounts and overnight investments. We maintain our bank deposit accounts with large financial institutions in amounts that exceed federally-insured limits. We have not experienced any losses in such accounts. Our mortgage and other notes receivable consists primarily of secured loans with health care facilities as discussed in Note 4. The investment in preferred stock is in one entity as discussed in Note 5.

Our financial instruments, principally our investments in preferred stock, marketable securities, and notes receivable, are subject to the possibility of loss of the carrying values as a result of either the failure of other parties to perform according to their contractual obligations or changes in market prices which may make the instruments less valuable. We obtain collateral in the form of first mortgage liens and other protective rights and continually monitor these rights in order to reduce such possibilities of loss. We evaluate the need to provide for reserves for potential losses on our financial instruments based on management's periodic review of our portfolio on an instrument-by-instrument basis. See Notes 4, 5, and 6 for additional information on notes receivable, investment in preferred stock, and our previous investments in enhanced cash funds.

*Marketable Securities* Our investments in marketable securities are classified as available-for-sale securities. Unrealized gains and losses on available-for-sale securities are recorded in stockholders' equity. We evaluate our marketable securities for other-than-temporary impairments on a quarterly basis. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis.

A decline in the market value of any available-for-sale or held-to-maturity security below cost that is deemed to be other-than-temporary results in an impairment to reduce the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is other-than-temporary, we consider whether we have the ability and intent to hold the investment until a market price recovery and consider whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end and forecasted performance of the investment.

*Deferred Costs* Costs incurred to acquire financings are amortized by the effective interest method over the term of the related debt.

*Deferred Income* Deferred income primarily includes non-refundable loan commitment fees received by us, which are amortized into income by the effective interest method over the expected period of the related loans. In the event that a potential borrower chooses not to borrow funds from us, the related commitment fees are recognized into income when the commitment expires.

In management's opinion, these loan commitment fees approximate the loan commitment fees that we would currently charge to enter into similar agreements based on the terms of the agreements and the creditworthiness of the parties, and the committed interest rates are approximately the same as current levels of interest rates.

*Rental Income* Base rental income is recognized on a straight-line basis over the term of the lease. Under certain of our leases, we receive additional contingent rent, which is based on the increase in revenues of a lessee over a base year or base quarter. We recognize contingent rent annually or quarterly, when, based on the actual revenues of the lessee, receipt of such income is assured since the target threshold has been achieved. Revenue from minimum lease payments under our leases is recognized on a straight-line basis to the extent that future lease payments are considered collectible. Lease payments that depend on a factor directly related to future use of the property, such as an increase in annual revenues over a base year revenues, are considered to be contingent rentals and are excluded from minimum lease payments.

We identify leases as non-performing if a required payment is not received within 30 days of the date it is due. Our policy related to rental income on non-performing leased real estate properties is to recognize rental income in the period when the related cash is received.

Table of Contents

*Mortgage Interest Income* Mortgage interest income is recognized by us based on the interest rates and principal amounts outstanding on the mortgage notes receivable. Under certain of our mortgages, we receive additional contingent interest, which is based on the increase in the current year revenues of a borrower over a base year. We recognize contingent interest income annually when, based on the actual revenues of the borrower, receipt of such income is assured since the target threshold has been achieved. We identify loans as non-performing if a required payment is not received within 30 days of the date it is due. Our policy related to mortgage interest income on non-performing mortgage loans is to recognize mortgage interest income in the period when the cash is received. As discussed in Notes 4 and 9, at December 31, 2009, we had one non-performing loan with a principal balance of $22,936,000 which was settled on February 1, 2010 as a result of our acquisition of the six facilities that served as collateral for the loan.

*Investment Interest and Other Income* Investment interest and other income includes dividends when declared and interest when earned from investments in preferred stock and marketable securities, realized gains and losses on sales of marketable securities using the specific-identification method, interest on cash and cash equivalents and amortization of deferred income.

*Segment Disclosures* We are in the business of owning and financing health care properties. We are managed as one reporting unit, rather than multiple reporting units, for internal purposes and for internal decision making. Therefore, we have concluded that we operate as a single segment.

*New Pronouncements* In June 2009, the Financial Accounting Standards Board ( FASB ) issued Statement No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162* . FASB Accounting Standards Codification™ (ASC) is the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. The ASC organized all existing GAAP pronouncements into various accounting topics using a consistent structure. Also included is relevant Securities and Exchange Commission guidance organized using the same topical structure in separate sections. The ASC was effective for financial statements issued for reporting periods that ended after September 15, 2009. This had an impact on our financial statements since all references to authoritative accounting literature are references in accordance with the ASC.

*Subsequent Events* We have evaluated all subsequent events through February 20, 2010, the date the consolidated financial statements were issued.

Table of Contents

**NOTE 3. REAL ESTATE**

The following table summarizes our real estate properties by type of facility and by state as of December 31, 2009 and 2008 (excluding assets held for sale):

(*Dollar amounts in thousands)*

**2009**

| Facility Type and State | Number of Facilities | Land | Buildings, Improvements & Construction in Progress | Accumulated Depreciation | Bonds Payable |
|---|---|---|---|---|---|
| *Skilled Nursing:* | | | | | |
| Alabama | 2 | $ 95 | $ 5,165 | $ (3,499) | $ - |
| Arizona | 1 | 453 | 6,678 | (2,403) | - |
| Florida | 4 | 2,306 | 37,436 | (22,724) | - |
| Georgia | 1 | 52 | 865 | (852) | - |
| Idaho | 1 | 122 | 2,491 | (900) | - |
| Kentucky | 2 | 231 | 2,182 | (1,639) | - |
| Missouri | 5 | 1,165 | 23,068 | (14,669) | - |
| South Carolina | 4 | 872 | 15,242 | (8,439) | - |
| Tennessee | 20 | 1,835 | 41,297 | (28,042) | - |
| Texas | 6 | 2,410 | 58,140 | (1,475) | - |
| Virginia | 1 | 176 | 2,511 | (1,622) | - |
| Total Skilled Nursing | 47 | 9,717 | 195,075 | (86,264) | - |
| | | | | | |
| *Acute Care:* | | | | | |
| Kentucky | 1 | 540 | 10,163 | (4,705) | - |
| Total Acute Care | 1 | 540 | 10,163 | (4,705) | - |
| | | | | | |
| *Medical Office Buildings:* | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Florida | 1 | 165 | 3,349 | (1,830) | - |
| Illinois | 1 | - | 1,925 | (614) | - |
| Texas | 2 | 631 | 9,677 | (4,564) | - |
| Total Medical Office Buildings | 4 | 796 | 14,951 | (7,008) | - |
| | | | | | |
| *Assisted Living:* | | | | | |
| Arizona | 4 | 1,757 | 13,622 | (3,716) | - |
| Florida | 4 | 7,095 | 21,543 | (10,231) | - |
| Illinois | 1 | 403 | 4,532 | (10) | - |
| Michigan | 4 | 1,490 | 21,825 | (50) | - |
| New Jersey | 1 | 4,229 | 13,030 | (5,296) | - |
| Pennsylvania | 1 | 439 | 3,960 | (429) | - |
| South Carolina | 1 | 344 | 2,877 | (788) | - |
| Tennessee | 3 | 871 | 7,061 | (1,916) | - |
| Total Assisted Living | 19 | 16,628 | 88,450 | (22,436) | - |
| | | | | | |
| *Independent Living:* | | | | | |
| Idaho | 1 | 243 | 4,182 | (1,487) | - |
| Missouri | 1 | 344 | 3,181 | (1,960) | - |
| Tennessee | 2 | 64 | 5,645 | (3,034) | - |
| Total Independent Living | 4 | 651 | 13,008 | (6,481) | - |
| Total continuing operations properties | 75 | 28,332 | 321,647 | (126,894) | - |
| Corporate assets | | 158 | 649 | (31) | - |
| | | $ 28,490 | $ 322,296 | $ (126,925) | $ - |

**2008**

| Facility Type and State | Number of Facilities | Land | Buildings, Improvements & Construction in Progress | Accumulated Depreciation | Bonds Payable |
|---|---|---|---|---|---|
| *Skilled Nursing:* | | | | | |
| Alabama | 2 | $ 95 | $ 5,165 | $ (3,399) | $ - |
| Arizona | 1 | 453 | 6,678 | (2,236) | 1,400 |
| Florida | 4 | 2,306 | 37,436 | (21,551) | - |
| Georgia | 1 | 52 | 865 | (820) | - |
| Idaho | 1 | 123 | 2,491 | (834) | - |
| Kentucky | 2 | 231 | 2,182 | (1,556) | - |
| Missouri | 5 | 1,164 | 23,070 | (13,962) | 1,225 |
| South Carolina | 4 | 872 | 15,241 | (8,050) | - |
| Tennessee | 20 | 1,835 | 41,335 | (26,921) | - |
| Texas | 8 | 2,280 | 47,408 | (10,827) | - |
| Virginia | 1 | 176 | 2,510 | (1,550) | 1,362 |
| Total Skilled Nursing | 49 | 9,587 | 184,381 | (91,706) | 3,987 |
| | | | | | |
| *Acute Care:* | | | | | |
| Kentucky | 1 | 540 | 10,163 | (4,412) | - |
| Total Acute Care | 1 | 540 | 10,163 | (4,412) | - |
| | | | | | |
| *Medical Office Buildings:* | | | | | |
| Florida | 1 | 165 | 3,349 | (1,754) | - |
| Illinois | 1 | - | 1,925 | (559) | - |
| Texas | 2 | 631 | 9,677 | (4,294) | - |
| Total Medical Office Buildings | 4 | 796 | 14,951 | (6,607) | - |
| | | | | | |
| *Assisted Living:* | | | | | |
| Arizona | 4 | 1,757 | 13,622 | (3,376) | - |
| Florida | 4 | 7,096 | 21,543 | (9,584) | - |
| New Jersey | 1 | 4,229 | 13,030 | (4,977) | - |
| Pennsylvania | 1 | 439 | 3,960 | (330) | - |

| | | | | | |
|---|---|---|---|---|---|
| South Carolina | 1 | 344 | 2,877 | (716) | - |
| Tennessee | 3 | 871 | 7,061 | (1,739) | - |
| Total Assisted Living | 14 | 14,736 | 62,093 | (20,722) | - |
| | | | | | |
| *Independent Living:* | | | | | |
| Idaho | 1 | 243 | 4,182 | (1,376) | - |
| Missouri | 1 | 344 | 3,181 | (1,868) | - |
| Tennessee | 2 | 64 | 5,645 | (2,883) | - |
| Total Independent Living | 4 | 651 | 13,008 | (6,127) | - |
| Total continuing operations properties | 72 | $ 26,310 | $ 284,596 | $ (129,574) | $ 3,987 |
| Corporate assets | | - | - | - | - |
| | | $ 26,310 | $ 284,596 | $ (129,574) | $ 3,987 |

During 2008, certain of our real estate properties were pledged as collateral on individual bonds payable, as noted in the tables above.

Table of Contents

Acquisition of Real Estate

During 2009, we purchased and leased back four skilled nursing facilities in Texas from affiliates of Legend Healthcare, LLC, ( Legend ) a privately owned company and one of our current lease customers. The total purchase price of the four facilities was $55,550,000. The purchase price was funded from our accumulated cash. The four facilities are being leased to Legend for a term of 15 years at an initial lease rate of 10%, or $5,555,000, plus a fixed annual rent escalator. Legend has the option to purchase the facilities after 7 years for $55,550,000 if the appraised value is less than $60,000,000. If the appraisal value is greater than $60,000,000, the purchase price will be $55,550,000 plus one-half of the appraised value of the facilities in excess of $60,000,000.

During the fourth quarter of 2009, we completed a purchase/leaseback transaction with Bickford Senior Living and its affiliates ( Bickford ) involving four assisted living facilities in Michigan and one in Illinois. Of the $28,250,000 purchase price, $25,250,000 was funded from our accumulated cash with the remainder to be paid as contingent consideration over the next three years based on Bickford s achievement of certain operating financial thresholds. At December 31, 2009, we have recorded the contingent consideration of $3,000,000 as a liability to Bickford as we consider the payment of this amount to be probable. The minimum lease payments to NHI will increase at 9.5% of any contingent consideration paid by NHI. The five facilities are being leased to Bickford over 15 years at an initial lease rate of 9.5% plus annual fixed escalators.

During 2009, we paid $769,000 to purchase our corporate office in Murfreesboro, Tennessee.

As discussed in Notes 4 and 9, in December 2009 we agreed to purchase six Florida skilled nursing facilities from Care Foundation of America, Inc. (CFA) for a total of $67,000,000 and finalized the acquisition on February 1, 2010. The facilities are leased to affiliates of Health Services Management, Inc., which commenced October 1, 2009, for $6,200,000 annually, plus a 3% escalator starting at the beginning of the third lease year. The lease expires in 2014 and the tenant has a 3 year optional renewal term. The facilities have been part of our mortgage loan portfolio for 16 years. The purchase resulted in the dismissal of pending litigation between NHI and CFA. We funded the purchase with the full satisfaction of the $23,300,000 in principal and interest on a mortgage note due from CFA, $29,700,000 in cash deposits and $14,000,000 in advances from NHI s revolving credit facility.

Assets Held for Sale

In December 2009, we accepted an earnest money deposit of $150,000 from the current lessee as part of negotiations to sell six skilled nursing facilities in Texas. We have classified these properties as held for sale in our Consolidated Balance Sheet as of December 31, 2009. The planned sale of these facilities meets the accounting criteria as being held for sale and we have reclassified the results of operations of these facilities as discontinued operations for all periods presented in our Consolidated Statements of Income. The summary of operating results of all facilities classified as discontinued operations is shown in Note 16.

Foreclosure Properties

We previously owned and operated 16 long-term health care facilities in Kansas, Missouri, Massachusetts and New Hampshire that we acquired through foreclosure or through the acceptance of deeds in lieu of foreclosure and subsequently sold the facilities to unrelated not-for-profit entities, providing 100% financing (the Foreclosure Properties ). The operating revenues and expenses of these facilities continued to be recorded in our Consolidated Statements of Income until such time as the down payment and continuing investment criteria were met, at which time we would account for the sales under the full accrual method. On December 31, 2007, the criteria for recording the sales were met. Net assets having a book value of $54,350,000 were deconsolidated, mortgage notes receivable of $66,819,000 were recorded, and a net gain on the sale and deconsolidation of these assets was recognized of $12,469,000. On December 31, 2007, we received irrevocable bank letters-of-credit aggregating $10,200,000 from the borrowers to guarantee down payments on the notes, and commitments to make monthly principal and interest payments to us to amortize the remaining note balances. In January 2008, we received down payments of $19,100,000 on the notes receivable and began receiving principal and interest totaling $417,000 each month. Our continuing involvement with these facilities is solely as a creditor. The facilities are currently managed by subsidiaries of NHC.

Table of Contents

The results of operations for these foreclosure facilities have been reclassified to retrospectively reflect the disposition of these facilities as discontinued operations for all periods presented. Amounts included in operating income of discontinued operations applicable to these facilities are summarized as follows (*in thousands):*

| | | Year Ended |
|---|---|---|
| **Income Statement**: | | December 31, 2007 |
| Facility operating revenue | $ | 93,343 |
| | | |
| Facility operating expenses | | 86,293 |
| Interest expense | | 7 |
| Depreciation | | 3,468 |
| Total Expenses | | 89,768 |
| Net income | $ | 3,575 |

**NOTE 4. MORTGAGE NOTES RECEIVABLE**

The following is a summary of the terms and amounts of mortgage and other notes receivable *(dollar amounts in thousands)*:

| Final Payment Date | Number of Loans | Payment Terms in 2009 | | Original Face Amount of Mortgage(s) | | December 31, 2009 | | December 31, 2008 |
|---|---|---|---|---|---|---|---|---|
| 2008 | 1 | Monthly payment of $352, including interest at 9.5% Balloon payment due at maturity. | $ | 32,708 | $ | 22,936 (1),(2) | $ | 22,936 |
| 2009 | 1 | Monthly payment of interest only at Prime plus 2.0% | | 300 | | - | | 83 |

| | | | | | |
|---|---|---|---|---|---|
| | | (5.25% at December 31, 2008) | | | |
| 2009 | 1 | Monthly payment of $50, including interest at 10%. Balloon payment due at maturity. | 5,196 | - | 3,750 |
| 2009 | 1 | Monthly payment of $70, including interest at 9.5% Balloon payment due at maturity. | 7,900 | - | 6,628 |
| 2010 | 1 | Monthly payment of $120, including interest at 9.0% Balloon payment due at maturity. | 12,162 | 6,217[1] | 8,463 |
| 2011 | 8 | Monthly payments of $9 to $69, which include interest at 6.9% | 40,526 | 21,328 | 23,458 |
| 2013 | 1 | Monthly payment of $22, including interest at 6.5% Balloon payment at maturity. | 5,158 | 728[1] | 801 |
| 2014 | 8 | Monthly payments of $8 to $25, which includes interest at 8.5% and includes $9.7 million with interest at 3.0% due at maturity | 26,293 | 21,614 | 21,884 |
| 2014 | 1 | Monthly payments of interest at a variable rate, initial rate is 12.0% (1st rate adjustment in October 2010 with principal due at maturity; additional $250,000 to be drawn during 2010) | 850 | 600 | - |
| 2018 | 1 | | 5,033 | 3,886 | - |

| | | | | | |
|---|---|---|---|---|---|
| | | Monthly payment of $38, including interest at 7.47% | | | |
| 2019 | 1 | Monthly payment of interest only 9.0% | 2,500 | 2,500 | 2,500 |
| 2027-2032 | 7 | Monthly payments of $19 to $32, which include interest ranging from 8.0 to 9.6% | 20,774 | 14,779 | 18,137 |
| | | | $ 159,400 | $ 94,588 | $ 108,640 |

(1) We recognize interest income in the period in which cash is received because the loan was previously classified as non-performing.

(2) See Notes 3, 4 & 9 regarding settlement of this mortgage note receivable

The mortgage notes receivable are secured by mortgages on the real property and UCC liens on the personal property of the facilities. Certain of the notes receivable are also secured by guarantees of significant parties and by cross-collateralization on properties with the same respective owner.

*Care Foundation of America, Inc. ( CFA )* On May 4, 2007, we exercised our right to call NHC s participation (approximately 22%) with us in a mortgage loan with CFA in exchange for the payment in cash of $6,255,000 which represented NHC s portion of the principal and interest outstanding on the loan. At December 31, 2008, the remaining principal balance and

Table of Contents

carrying value of the loan was $22,936,000. As disclosed in Note 9, CFA filed a Chapter 11 bankruptcy petition and initiated an adversary proceeding complaint against us. The principal balance and carrying value of the loan at December 31, 2009 was unchanged. It is our policy to recognize mortgage interest income on non-performing mortgage loans in the period in which cash is received. Under an Agreed Order by the bankruptcy court, NHI received interest payments during the period of the Chapter 11 proceedings at an annual interest rate of 9.5% on the unpaid principal balance of $22,936,000. For the year ended December 31, 2009, we received payment and recognized interest income of $1,837,000 from CFA. As disclosed in Note 9, the unpaid principal balance was settled in full when we acquired the six facilities for $67,000,000 on February 1, 2010.

In June 2009, we purchased a first mortgage note at a discount for $3,901,000 secured by an assisted living facility in Minnesota. The note has an interest rate of 7.47% and matures February 2018. The note discount is amortized and recognized as an adjustment to interest income over the remaining term of the note using a method that approximates the effective interest method. The average annual yield on the note if held to maturity is approximately 12%.

Loan Recoveries

*Allgood Healthcare, Inc. ( Allgood )* We previously provided mortgage financing to the purchasers of five Georgia nursing homes originally owned by Allgood, a former customer, which filed for bankruptcy in January 2003. We received payment in full on one note from a borrower in December 2006, at which time we recorded a recovery of amounts previously written down of $2,073,000. In February 2009, we received payment in full of $3,150,000 on the pro-rata portion of a note secured by a second nursing home and recorded a recovery of amounts previously written down of $1,077,000. We continue to hold mortgages on the three remaining facilities at a carrying value of $6,217,000.

*American Medical Associates, Inc. ( AMA )* On May 1, 2004, we provided financing to purchasers of three Florida-based nursing homes formerly owned by AMA and previously financed by us. The amount of the new mortgage loans totaled $14,450,000 and the notes were to mature May 14, 2009. The notes were recorded net of the $5,200,000 recorded loss on notes to AMA in 2002. Management s analysis of future expected cash flows, historical occupancy and operating income of the project resulted in additional net impairments of $2,000,000 in 2005. Loans secured by two of the properties were paid during 2006, inclusive of $4,935,000 in recoveries, and a gain of $1,015,000.

In March 2007, the remaining AMA mortgage loans secured by the last of three AMA properties were fully paid. We received $5,721,000 in cash, representing the full principal balances and accrued interest on the loans. As a result, we recognized recoveries of $1,700,000 and a gain on settlement of the note of $468,000 in 2007.

*Health Services Management of Texas LLC ( HSM )* - On July 11, 2007, we received payoff at par of a mortgage loan investment in the amount of $44,500,000. The recovery of amounts previously written down related to this loan amounted to $21,300,000. The average recorded investment in the HSM loan was $23,060,000 for the year ended December 31, 2007. The amount of interest income recognized (representing cash received) on the loan was $2,575,000 for the year ended December 31, 2007.

*SouthTrust-* On December 6, 2007, we received a final residual payment related to a mortgage pool investment. The recovery of amounts previously written down related to this investment amounted to $1,238,000. Recovery of any amounts previously written down had been considered highly doubtful. There was no carrying value of this investment at any time during 2007.

## NOTE 5. INVESTMENT IN PREFERRED STOCK, AT COST

In September 1998, we purchased 2,000,000 shares of the cumulative preferred stock of LTC Properties, Inc. ( LTC ), a publicly-held REIT. The nonvoting preferred stock is convertible into common stock at a 1:1 ratio. The closing price of LTC s common stock at December 31, 2009 was $26.75 per share. The preferred stock has an annual cumulative coupon rate of 8.5% payable quarterly and a liquidation preference of $19.25 per share. Dividend revenue amounted to $3,241,000 in each of 2009, 2008, and 2007. The preferred stock is not redeemable by us or LTC. The preferred stock, which is not listed on a stock exchange, is considered a non-marketable security and is recorded at cost in our consolidated balance sheets. Amounts to be received from the 8.5% coupon rate are recorded as investment income when the dividend is declared. The carrying value of the preferred stock equals its cost of $38,132,000 at December 31, 2009 and 2008.

In addition to our investment in the preferred stock of LTC, we held 674,800 and 774,800 shares of common stock of LTC at December 31, 2009 and 2008, respectively, with a fair value and carrying value of $18,051,000 and $15,713,000 at December 31, 2009 and 2008, respectively, which is included in marketable securities (See Note 6).

Table of Contents

## NOTE 6. INVESTMENT IN MARKETABLE SECURITIES

Our investments in marketable securities include available-for-sale securities. Unrealized gains and losses on available-for-sale securities are recorded in stockholders   equity. Realized gains and losses from securities sales are determined based upon specific identification of the securities.

Marketable securities consisted of the following at December 31, 2009 and 2008 (*in thousands*)

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Common stock of other REITs | $ 5,831 | $ 20,185 | $ 6,463 | $ 17,293 |
| NHC convertible preferred stock | 1,389 | 1,137 | 1,390 | 1,348 |
| Enhanced cash funds | - | - | 7,953 | 7,953 |
| | $ 7,220 | $ 21,322 | $ 15,806 | $ 26,594 |

Gross unrealized gains and gross unrealized losses related to available-for-sale securities were as follows (*in thousands*):

| | 2009 | 2008 |
|---|---|---|
| Gross unrealized gains | $ 14,355 | $ 10,919 |
| Gross unrealized losses | (252) | (131) |
| | $ 14,103 | $ 10,788 |

None of these available-for-sale marketable securities have stated maturity dates.

During 2009, 2008, and 2007, we received and recognized $1,480,000, $2,091,000, and, $5,103,000, respectively, of dividend and interest income from our marketable securities. Such income is included in non-operating income in the consolidated statements of income.

Our investment in NHC convertible preferred stock has been in an unrealized loss position for at least twelve months immediately prior to December 31, 2009. We have evaluated the severity and duration of the impairment of this security by considering the strong financial condition of NHC. We have concluded that we have the ability and intent to hold this investment for a reasonable period of time sufficient for a recovery of fair value.

In November 2009, we sold 100,000 common shares of LTC Properties, Inc. for an average price of $26 per share. As a result, we recorded $1,931,000 as a gain on the sale, $717,000 of which was a recovery of a previously recorded other-than-temporary impairment, which was included in non-operating income.

*Enhanced Cash Funds* On December 10, 2007, we were notified by Bank of America that its largest, privately-placed, enhanced cash fund called Columbia Strategic Cash Fund (the Fund ) would be closed and liquidated. In addition, (1) cash redemptions were temporarily suspended, although redemptions could be filled through a pro-rata distribution of the underlying securities, consisting principally of corporate debt, mortgage-backed securities and asset-backed securities; (2) the Fund s valuation would be based on the market value of the underlying securities, whereas historically the Fund s valuation was based on amortized cost; and (3) interest would continue to accrue. The carrying value of our investment in the Fund on December 10, 2007 was $38,359,000. Subsequent to December 10, 2007 and prior to December 31, 2007, we received a pro-rata distribution of underlying securities in the Fund as described above of $14,382,000 to a separate investment management account ( IMA ) and cash redemptions of principal totaling $4,665,000. Prior to December 31, 2007, realized losses on the distribution and redemption of securities and cash amounted to $236,000. At December 31, 2007, the fair market value of our investment in the Fund was estimated to be $18,835,000 and the fair market value of our investment in the separate IMA was estimated to be $14,294,000 for a total of $33,129,000. Unrealized losses measured as the difference between fair market value and our original investment, at cost, amounted to $329,000 and was reflected as a component of stockholder s equity at December 31, 2007.

A decline in the market value of any available-for-sale security below cost that is deemed to be other-than-temporary results in an impairment to reduce the carrying amount to fair value. The impairment is charged to operations and a new cost basis for the security is established. To determine whether an impairment is other-than-temporary, we consider whether we have the ability

Table of Contents

and intent to hold the investment until a market price recovery and consider whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to a reporting date and forecasted performance of the investment. In 2008, we concluded there was an other-than-temporary impairment of the Fund and the IMA totaling $2,065,000 which we charged to operations.

For the year ended December 31, 2008, we received cash redemptions of principal from the Fund and IMA totaling $23,031,000. Exclusive of the other-than-temporary impairment charges of $2,065,000, realized losses amounted to $410,000, which were charged to operations. At December 31, 2008, the fair market value of our investment in the Fund was estimated to be $4,000,000 and the fair market value of our investment in the separate IMA was estimated to be $3,953,000 for an aggregate fair value of $7,953,000 and a revised cost basis of the same amount.

For the year ended December 31, 2009, we received cash redemptions of principal from the Fund and IMA totaling $8,491,000. Net realized gains for the same period were $538,000 and were recognized as non-operating income. As of December 31, 2009, both the Fund and the IMA were fully liquidated.

**NOTE 7. FAIR VALUE MEASUREMENTS**

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to their short-term nature. We estimate the fair values of other financial instruments using quoted market prices and discounted cash flow techniques. At December 31, 2009 and 2008, there were no material differences between the carrying amounts and fair values of our financial instruments.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. A three-level fair value hierarchy is required to prioritize the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

.

Level 1 Quoted prices in active markets for identical assets or liabilities.

.

Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The Company has segregated all assets and liabilities that are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date in the table below.

Entities have the option to measure many financial instruments and certain other items at fair value. Entities that choose the fair value option will recognize unrealized gains and losses on items for which the fair value option was elected in earnings at each subsequent reporting date. We have currently chosen not to elect the fair value option for any items that are not already required to be measured at fair value.

Assets measured at fair value on a recurring basis are summarized below (in thousands):

| | | Fair Value Measurements at December 31, 2009 Using | | |
|---|---|---|---|---|
| | | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs |
| Description | Total | (Level 1) | (Level 2) | (Level 3) |
| Common stock of other REITs | $ 20,185 | $ 20,185 | $ - | $ - |
| NHC convertible preferred stock | 1,137 | 1,137 | - | - |
| Enhanced cash funds | - | - | - | - |
| Total Marketable Securities | $ 21,322 | $ 21,322 | $ - | $ - |

| | | Fair Value Measurements at December 31, 2008 Using | | |
|---|---|---|---|---|
| | | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs |
| Description | Total | (Level 1) | (Level 2) | (Level 3) |
| Common stock of other REITs | $ 17,293 | $ 17,293 | $ | $ |
| NHC convertible preferred stock | 1,348 | 1,348 | | |
| Enhanced cash funds | 7,953 | | | 7,953 |
| Total Marketable Securities | $ 26,594 | $ 18,641 | $ | $ 7,953 |

*Common and Convertible Preferred Stock* The fair value of our common and convertible preferred stock investments are derived using quoted market prices of identical securities or other observable inputs such as trading prices of identical securities in active markets.

*Enhanced Cash Funds* The fair values of our enhanced cash funds, which are comprised of our investments in the Columbia Strategic Cash Fund and a separate Investment Management Account, were determined by third-party pricing vendors using certain significant inputs (e.g. yield curves, spreads, prepayments and volatilities) that are unobservable. These securities are valued primarily using broker pricing models that incorporate transaction details such as contractual terms, maturity, timing and amount of future cash flows, as well as assumptions about liquidity.

Realized gains and (losses) are included in earnings for the years ended December 31, 2009 and 2008 and are reported as non-operating revenues in the Consolidated Statements of Income. Unrealized losses for the year ended December 31, 2008 are reported as other comprehensive losses in the Consolidated Statements of Stockholders Equity. During the fourth quarter of 2008, our investment in enhanced cash funds was transferred from Level 2 to Level 3 due to a lack of current observable market activity. The following tables present a reconciliation of Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2009 and 2008. *(in thousands)*:

2009

| Description | Fair Value Beginning of Year | Transfers Into Level 3 | Realized Gains and (Losses) | Purchases, Issuances and Settlements | Fair Value at End of Year | Total Period Losses Included in Earnings Attributable to the Change in Unrealized Losses Relating to Assets Held at End of Year |
|---|---|---|---|---|---|---|
| Columbia Strategic Cash Fund | $ 4,000 | $ - | $ 329 | $ 4,329 | $ - | $ - |
| Investment Management Account | 3,953 | - | 209 | 4,162 | - | - |
| Total Enhanced Cash Funds | $ 7,953 | $ - | $ 538 | $ 8,491 | $ - | $ - |

2008

| Description | Fair Value Beginning of Year | Transfers Into Level 3 | Realized Gains and (Losses) | Purchases, Issuances and Settlements | Fair Value at End of Year | Total Period Losses Included in Earnings Attributable to the Change in Unrealized Losses Relating to Assets Held at End of Year |
|---|---|---|---|---|---|---|
| Columbia Strategic Cash Fund | $ | $ 18,835 | ($1,239) | ($13,596) | $ 4,000 | $ (241) |
| Investment Management Account | | 14,294 | (906) | (9,435) | 3,953 | (89) |
| Total Enhanced Cash Funds | $ | $ 33,129 | ($2,145) | ($23,031) | $ 7,953 | $ (330) |

Table of Contents

## NOTE 8. BONDS PAYABLE

Debt consists of the following at December 31, 2009 and 2008 (*in thousands*):

| | Weighted Average Interest Rate | Scheduled Maturity | Principal Amount 2009 | | 2008 |
|---|---|---|---|---|---|
| First mortgage revenue bonds, principal payable in periodic installments, interest payable monthly | Variable; 1.9% | 2014 | $ | - | $ 3,987 |

In December 2009, we paid in full our revenue bonds having a principal balance of $3,987,000. The bonds were to have matured on December 2, 2014. There were no penalties or other fees related to paying off the bonds early.

On February 1, 2010, we closed on a $100,000,000 unsecured revolving credit facility to fund new healthcare real estate investments. The new credit facility, which was provided by Regions Bank as agent and Pinnacle National Bank as a participating bank, bears interest at a margin of 250 basis points over LIBOR with a floor of 1% and matures in February 2011.

## NOTE 9. COMMITMENTS AND CONTINGENCIES

At December 31, 2009, we had pending commitments related to two health care real estate projects. Our lease with Emeritus Senior Living contains a provision whereby we have agreed to fund up to $750,000 of the cost of certain capital improvements and operating equipment purchases. At December 31, 2009, we were committed to fund an additional $250,000 on a mortgage note receivable. We have sufficient liquidity to fund these commitments and to finance new investments.

At December 31, 2009, we believe that we have operated our business so as to qualify as a REIT under Section 856 through 860 of the Code, and we intend to continue to operate in such a manner, but no assurance can be given that we will be able to qualify at all times. If we qualify as a REIT, we will generally not be subject to federal corporate income taxes on our net income that is currently distributed to our stockholders. This treatment substantially eliminates the double taxation (at the corporate and stockholder levels) that typically applies to corporate dividends. Our failure to continue to qualify under the applicable REIT rules and regulations would cause us to owe state and federal income taxes and would have a material adverse impact on our financial position, results of operations and cash flows.

The health care facilities in which we have investments of loans or leases are subject to claims and suits in the ordinary course of business. Our lessees and mortgagees have indemnified and will continue to indemnify us against all liabilities arising from the operation of the health care facilities and will indemnify us against environmental or title problems affecting the real estate underlying such facilities. While there may be lawsuits pending against certain of the owners and/or lessees of the health care facilities, management believes that the ultimate resolution of any pending proceedings would have no material adverse effect on our financial position, operations and cash flows.

On December 31, 1999, NHI acquired six Florida properties from the Chapter 11 bankruptcy trustee for York Hannover Nursing Centers, Inc. On January 1, 2000, NHI sold those properties to Care Foundation of America, Inc., a Tennessee nonprofit corporation ( CFA ) for $32.7 million, ($6.8 million of which was ultimately due to National HealthCare Corporation ("NHC"), which had contributed to the purchase price consideration, under the terms of an inter-creditor agreement between NHI and NHC), with NHI financing 100% of the purchase price, and the debt having an original maturity date of July 1, 2001. The maturity date of the debt was subsequently extended several times over the years, with the most recent extension making the principal balance of $22,936,000 due December 31, 2008. On December 30, 2008, CFA filed for Chapter 11 bankruptcy in the U.S. District Court for the Middle District of Tennessee (Case No. 08-12367). On January 2, 2009, CFA filed an adversary proceeding complaint against NHI in the bankruptcy case (the CFA Adversary Proceeding ). CFA s complaint alleged in part that NHI exercised dominion and control over CFA s board of directors from 1999 until sometime in 2008 and that NHI had used that control to cause CFA to buy and finance the six Florida homes on terms that were not fair to CFA. CFA also alleged that these transactions constituted excess benefit transactions as defined in Section 4958 of the Internal Revenue Code. NHI denied CFA s claims and filed a counterclaim seeking a declaratory judgment as to the validity and enforceability of CFA s outstanding secured debt to NHI. In June 2009, the bankruptcy court granted a motion to intervene filed by the Tennessee Attorney General s Office. In December 2009, NHI agreed to purchase the six Florida properties (which are leased to a third-party for $6.2 million annually, plus escalators over the initial lease term expiring in 2014) from CFA for a total of $67 million; CFA agreed to pay the full amount of its outstanding balance due to NHI as a credit against the purchase price (CFA had continued to pay interest of 9.5% on the principal amount due during the bankruptcy); and the parties agreed to dismiss with prejudice their respective claims in the CFA Adversary Proceeding. The transaction and the resolution of the claims were

Table of Contents

approved by both the bankruptcy court and the Tennessee Attorney General s Office. The transaction closed on February 1, 2010.

In November 2008, NHI was served with a Civil Investigative Demand by the Office of the Tennessee Attorney General ( OTAG ), which indicated that that OTAG was investigating transactions between NHI and three Tennessee nonprofit corporations, including CFA. NHI has provided OTAG with requested information and documents. OTAG has agreed as part of the resolution of the CFA Adversary Proceeding that it will take no further action based on NHI s relationship with CFA. At this time, however, NHI does not know whether OTAG will commence any legal proceedings with respect to any transaction with any other nonprofit corporation or, if so, what relief will be sought.

On October 20, 2009, Burt Shearer Trustee, as trustee of the Shearer Family Living Trust, filed a shareholder derivative complaint (M.D. Tenn. Case No. 09-991), naming as defendants NHI directors W. Andrew Adams, Robert A. McCabe, Jr., Robert T. Webb, and Ted H. Welch and as a nominal defendant NHI. On January 19, 2010, the plaintiff filed an amended complaint. The amended complaint asserts that the allegations made in the CFA Adversary Proceeding are true and that the individual defendants are responsible for the wrongdoing alleged by CFA in that proceeding and have thus breached their fiduciary duties to NHI. The derivative amended complaint alleges that, as a result of that breach of duty, NHI has sustained damages in an amount not specified. The amended complaint seeks no relief from NHI itself.

## NOTE 10. LIMITS ON COMMON STOCK OWNERSHIP

The Company s Charter contains certain provisions which are designed to ensure that the Company s status as a real estate investment trust is protected for federal income tax purposes. One of these provisions prohibits any stockholder from owning, either directly or indirectly pursuant to certain tax attribution rules, more than 9.9% of the Company s stock. In 1991, the Board created an exception to this ownership limitation for Dr. Carl E. Adams, his spouse, Jennie Mae Adams, and their lineal descendants. Effective May 12, 2008, we entered into Excepted Holder Agreements with W. Andrew Adams and certain members of his family. These written agreements are intended to restate and replace the parties prior verbal agreement. These agreements were entered into in connection with the Company s recent stock purchase program pursuant to which the Company announced that it would purchase up to 1,000,000 shares of its common stock in the public market from its stockholders.

A separate agreement was entered into with each of the spouse and children of Dr. Carl E. Adams and others within Mr. W. Andrew Adams family. We needed to enter into such an agreement with each family member because of the complicated ownership attribution rules under the Code. The Agreement permits the Excepted Holders to own stock in excess of 9.9% up to the limit specifically provided in the individual agreement and not lose rights with respect to such shares. However, if the stockholder s stock ownership exceeds the limit then such shares in excess of the limit become Excess Stock and lose voting rights and entitlement to receive dividends. The Excess Stock classification remains in place until the stockholder no longer exceeds the threshold limit specified in the Agreement. The purpose of these agreements is to ensure that the Company does not violate the prohibition against a real estate investment trust being closely held.

W. Andrew Adams Excess Holder Agreement also provides that he will not own shares of stock in any tenant of the Company if such ownership would cause the Company to constructively own more than a 9.9% interest in such tenant. This prohibition is designed to protect the Company s status as a real estate investment trust for tax purposes.

**NOTE 11. SHARE-BASED COMPENSATION**

We recognize share-based compensation for all stock options granted over the requisite service period using the fair value for these grants as estimated at the date of grant using the Black-Scholes pricing model.

The 1997 and 2005 Share-Based Compensation Plans

The Compensation Committee of the Board of Directors ( the Committee ) has the authority to select the participants to be granted options; to designate whether the option granted is an incentive stock option ( ISO ), a non-qualified option, or a stock appreciation right; to establish the number of shares of common stock that may be issued upon exercise of the option; to establish the vesting provision for any award; and to establish the term any award may be outstanding. The exercise price of any ISO s granted will not be less than 100% of the fair market value of the shares of common stock on the date granted and the term of an ISO may not be any more than ten years. The exercise price of any non-qualified options granted will not be less than 100% of the fair market value of the shares of common stock on the date granted unless so determined by the Committee.

Table of Contents

In May 2005, our stockholders approved the 2005 Plan pursuant to which 1,500,000 shares of our common stock were available to grant as share-based payments to employees, officers, directors or consultants. As of December 31, 2009, 1,078,967 shares were available for future grants under the 2005 plan. The individual restricted stock and option grant awards vest over periods up to five years. The term of the options outstanding under the 2005 Plan is five years from the date of grant.

The 1997 Plan provides for the granting of options to key employees and directors of NHI to purchase shares of common stock at a price no less than the market value of the stock on the date the option is granted. As of December 31, 2009, no shares were available for future grants under this plan. The term of the options outstanding under the 1997 Plan is five years from the date of the grant.

Compensation expense is recognized only for the awards that ultimately vest. Accordingly, forfeitures that were not expected may result in the reversal of previously recorded compensation expense. The compensation expense (income) reported for share-based compensation related to the 2005 Plan and the 1997 Plan totaled $853,000, $7,000 and $543,000 for the years ended December 31, 2009, 2008 and 2007, respectively, consisting of $52,000, ($138,000) and $327,000 for restricted stock and $801,000, $145,000 and $216,000 for stock options which is included in general and administrative expense in the Consolidated Statements of Income.

## Determining Fair Value of Option Awards

The fair value of each option award was estimated on the grant date using the Black-Scholes option valuation model with the weighted average assumptions indicated in the following table. Generally, awards are subject to cliff vesting. Each grant is valued as a single award with an expected term based upon expected employee and termination behavior. Compensation cost is recognized on the graded vesting method over the requisite service period for each separately vesting tranche of the award as though the award were, in substance, multiple awards. The expected volatility is derived using daily historical data for periods preceding the date of grant. The risk-free interest rate is the approximate yield on the United States Treasury Strips having a life equal to the expected option life on the date of grant. The expected life is an estimate of the number of years an option will be held before it is exercised.

## Stock Options

The weighted average fair value per share of options granted was $3.20, $2.53 and $2.59 for 2009, 2008 and 2007, respectively. The fair value of each grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Dividend yield | 9.09% | 8.08% | 8.32% |
| Expected volatility | 36.69% | 24.91% | 20.42% |
| Expected lives | 3.4 years | 2.5 years | 2.5 years |
| Risk-free interest rate | 1.57% | 2.39% | 4.64% |
| Expected forfeiture rate | 0.00% | 0.00% | 0.00% |

Stock Option Activity

The following table summarizes option activity:

| | Number | Weighted Average | Weighted Average | Aggregate |
|---|---|---|---|---|
| | | | Remaining | Intrinsic Value |
| | of Shares | Exercise Price | Contractual Life (Years) | *(in thousands)* |
| Outstanding December 31, 2006 | 266,000 | 24.14 | | |
| Options granted under 1997 Plan | 57,800 | 34.25 | | |
| Options granted under 2005 Plan | 2,200 | 34.25 | | |
| Outstanding December 31, 2007 | 326,000 | 26.00 | | |
| Options granted under 1997 Plan | 14,450 | 30.30 | | |
| Options granted under 2005 Plan | 80,550 | 29.64 | | |
| Options exercised under 1997 Plan | (139,817) | 23.40 | | |
| Options exercised under 2005 Plan | (60,848) | 26.24 | | |
| Options forfeited under 1997 Plan | (14,450) | 34.25 | | |
| Options forfeited under 2005 Plan | (46,217) | 28.09 | | |
| Outstanding December 31, 2008 | 159,668 | 29.03 | | |
| Options granted under 2005 Plan | 275,000 | 25.29 | | |
| Options exercised under 1997 Plan | (15,000) | 23.90 | | |
| Options exercised under 2005 Plan | (165,832) | 25.18 | | |
| Outstanding December 31, 2009 | 253,836 | 27.72 | 2.811 | $ 2,353 |
| Exercisable December 31, 2009 | 141,417 | $29.28 | 2.656 | $ 1,090 |

| | | | Remaining |
|---|---|---|---|
| Grant | Options | Exercise | Contractual |

| Date | Outstanding | Price | Life in Years |
|---|---|---|---|
| 5/3/2005 | 15,000 | 23.90 | 0.334 |
| 5/1/2006 | 334 | 23.62 | 1.219 |
| 5/2/2006 | 15,000 | 23.79 | 1.332 |
| 7/21/2006 | 10,000 | 24.60 | 1.551 |
| 5/16/2007 | 45,000 | 34.25 | 2.373 |
| 2/4/2008 | 18,500 | 29.24 | 3.099 |
| 4/29/2008 | 30,000 | 30.30 | 3.326 |
| 2/25/2009 | 120,002 | 25.29 | 3.405 |
| | 253,836 | | 2.811 |

The weighted average remaining contractual life of all options outstanding at December 31, 2009 is 2.8 years. Including outstanding stock options, our stockholders have authorized an additional 1,332,803 shares of common stock that may be issued under the share-based payments plans.

At December 31, 2009, there were outstanding unvested options to purchase 112,419 shares with a weighted average grant date fair value of $3.14 per share. As of December 31, 2009, we had $130,000 of total unrecognized compensation cost related to unvested options, net of expected forfeitures, which is expected to be recognized over the following periods: 2010-$113,000 and 2011-$17,000.

The intrinsic value of total options outstanding at December 31, 2009 was $9.27 per share or $2,353,000. The intrinsic value of options exercisable at December 31, 2009 was $7.71 per share or $1,090,000. The intrinsic value of the total options exercised for the year ended December 31, 2009 was $11.81 per share or $2,136,000.

Table of Contents

Restricted Stock Activity

The following table summarizes restricted stock activity:

| | Number of Shares | Weighted Average Grant Price | Weighted Average Remaining Vesting Period (*Years*) | Aggregate Intrinsic Value *(in thousands)* |
|---|---|---|---|---|
| Non-vested at December 31, 2007 | 48,700 | n/a | 2.646 | $ 1,359 |
| Vested during the period | (12,175) | n/a | - | - |
| Restricted Stock granted | 25,000 | $29.24 | - | - |
| Restricted Stock forfeited | (54,500) | n/a | - | - |
| Non-vested at December 31, 2008 | 7,025 | n/a | 1.511 | 193 |
| Vested during the period | (1,925) | n/a | - | - |
| Non-vested at December 31, 2009 | 5,100 | n/a | 1.026 | $ 189 |

| Grant Date | Shares Non-vested | Grant Price | Remaining Vesting Period |
|---|---|---|---|
| 5/1/06 | 1,350 | $23.62 | 0.832 |
| 2/4/08 | 3,750 | $29.24 | 1.096 |
| | 5,100 | | |

The closing market price of our common stock at December 31, 2009 was $36.99 per share, which is the implied intrinsic value of the restricted stock.

At December 31, 2009, we had $36,000 of total unrecognized compensation cost related to unvested restricted stock issued which is expected to be recognized over the following periods: 2010-$25,000; 2011-$10,000; and 2012-$1,000.

## NOTE 12. SUPPLEMENTAL CASH FLOW INFORMATION

Cash payments for interest on our debt obligations were $91,000, $351,000 and $7,860,000 for the years ended December 31, 2009, 2008 and 2007, respectively.

As described in Note 3, on December 31, 2007, we recorded the previous sale of 16 facilities that were, prior to that time, required to be consolidated into our consolidated financial statements under the requirements of SFAS 66 since they did not meet the accounting criteria for recognition of a sale for financial reporting purposes. Amounts increased (decreased) as follows:

| *(in thousands)* | |
|---|---|
| As of December 31, | 2007 |
| Mortgage notes receivable, net | $ 66,819 |
| Real estate properties, net | (36,857) |
| Accounts receivable, net | (7,176) |
| Deferred costs and other assets | (13,310) |
| Accounts payable and other accrued expenses | (17,072) |

In 2009, we recorded property and equipment additions and an expected real estate acquisition liability of $3,000,000 associated with a purchase/leaseback transaction with Bickford Senior Living.

Table of Contents

## NOTE 13. EARNINGS PER SHARE

Basic earnings per common share are based on the weighted average number of common shares outstanding during the reporting period. Diluted earnings per common share assume the exercise of stock options and vesting of restricted shares using the treasury stock method. The following table summarizes the average number of common shares and the net income used in the calculation of basic and diluted earnings per share *(in thousands, except share and per share amounts)*:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Income from continuing operations available to common stockholders | $ 58,136 | $ 51,579 | $ 75,571 |
| Discontinued operations | 6,093 | 5,931 | 20,864 |
| Net income available to common stockholders | $ 64,229 | $ 57,510 | $ 96,435 |
| BASIC: | | | |
| Weighted average common shares outstanding | 27,586,338 | 27,706,106 | 27,703,464 |
| Income from continuing operations per common share | $ 2.11 | $ 1.86 | $ 2.73 |
| Discontinued operations per common share | 0.22 | 0.22 | 0.75 |
| Net income per common share | $ 2.33 | $ 2.08 | $ 3.48 |
| DILUTED: | | | |
| Weighted average common shares | 27,586,338 | 27,706,106 | 27,703,464 |
| Stock options | 28,825 | 18,485 | 58,954 |
| Restricted stock shares | 3,137 | 7,360 | 21,444 |
| Average dilutive common shares outstanding | 27,618,300 | 27,731,951 | 27,783,862 |
| Income from continuing operations per | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| common share | $ | 2.10 | $ | 1.86 | $ | 2.72 |
| Discontinued operations per common share | | 0.22 | | 0.21 | | 0.75 |
| Net income per common share | $ | 2.32 | $ | 2.07 | $ | 3.47 |
| | | | | | | |
| Incremental shares excluded since anti-dilutive: | | | | | | |
| Stock options | | 9,906 | | 11,469 | | 4,936 |

The above incremental shares were excluded from the computation of diluted earnings per share since inclusion of these incremental shares in the calculation would have been anti-dilutive.

Table of Contents

**NOTE 14. COMMON STOCK DIVIDENDS** *(Unaudited)*

Dividend payments per share to common stockholders are characterized for 2009 individual tax purposes as follows:

| Dividend Payment Date | Taxable as Ordinary Income | Taxable as Capital Gain | Return of Capital | Totals |
|---|---|---|---|---|
| May 8, 2009 | $ .519318 | $ .024786 | $ .005896 | $ .55 |
| August 10, 2009 | .519318 | .024786 | .005896 | .55 |
| November 10, 2009 | .519318 | .024786 | .005896 | .55 |
| January 29, 2010 [(1)] | .619317 | .024786 | .005897 | .65 |
| | $ 2.177271 | $ .099144 | $ .023585 | $ 2.30 |

(1) Declared for stockholders of record December 31, 2009

**NOTE 15. RELATIONSHIP WITH NATIONAL HEALTHCARE CORPORATION**

*Leases*

*Major lease customer* Of the 108 health care facilities in which we have investments, 41 facilities are currently leased under operating leases to NHC, a publicly-held company and our largest customer. Our rental income in 2009 was $55,076,000 ($34,782,000 from NHC); in 2008 was $48,340,000 ($33,700,000 from NHC); and in 2007 was $46,198,000 ($33,700,000 from NHC).

On October 17, 1991, concurrent with NHC's conveyance of 43 properties to us, we leased to NHC 40 long-term care facilities and 3 independent living facilities. The master lease with NHC is a "triple net lease" under which NHC is responsible for paying all taxes, utilities, insurance premium costs, repairs and other charges relating to the ownership of the facilities. NHC is obligated at its expense to maintain adequate insurance on the facilities' assets.

On December 27, 2005, under an amendment to the original master lease, NHI and NHC agreed to a lease extension to cover the remaining 41 facilities. The 41 properties include 4 centers leased to other parties, the lease payments of which are guaranteed to us by NHC under the Master Lease. The 15 year lease extension began January 1, 2007, and includes 3 additional 5-year renewal options, each at fair rental value of such leased property as negotiated between the parties and determined without including the value attributable to any improvements to the leased property, voluntarily made by the tenant at its expense. Under the terms of the lease, base rent for 2007 was $33,700,000 with additional percentage rent being equal to 4% of the increase in the gross revenue of each facility over a 2007 base year. We did not recognize any percentage rent from NHC during 2007 and 2008. During 2009, we received and recognized $541,000 in percentage rent for 2008 and $541,000 in percentage rent for 2009.

*Future minimum lease payments* At December 31, 2009, the future minimum lease payments (excluding percentage rent) to be received by us under our operating leases with NHC and other lessees are as follows:

| | NHC | Others | Total |
|---|---|---|---|
| 2010 | $ 33,700,000 | $ 24,106,000 | $ 57,806,000 |
| 2011 | 33,700,000 | 22,554,000 | 56,254,000 |
| 2012 | 33,700,000 | 19,788,000 | 53,488,000 |
| 2013 | 33,700,000 | 18,019,000 | 51,719,000 |
| 2014 | 33,700,000 | 17,303,000 | 51,003,000 |
| Thereafter | 269,600,000 | 147,282,000 | 416,882,000 |
| | $ 438,100,000 | $ 249,052,000 | $ 687,152,000 |

*Advisory Agreements*

Beginning with our inception in 1991, NHC had provided advisory services to us under an Advisory, Administrative Services and Facilities Agreement (the "Advisory Agreement"). Effective November 1, 2004, we assigned the Advisory Agreement with NHC to Management Advisory Source, LLC ( MAS ), formed by our Chief Executive Officer and Board Chairman W. Andrew

Table of Contents

Adams. We have no ownership in MAS. Pursuant to this Advisory Agreement, services related to investment activities and day-to-day management and operations were provided to us by MAS. Accordingly, MAS was subject to the supervision of and policies established by our Board of Directors. On December 3, 2007, we elected to become a self-managed REIT, with our own management reporting directly to the Board of Directors, and we terminated the Advisory Agreement with MAS on March 31, 2008. Under a consulting agreement with our Board of Directors, Mr. Adams continues to serve as Chief Executive Officer and remains the Chairman of the Board of Directors. On February 25, 2009, Justin Hutchens assumed the positions of President and Chief Operating Officer.

Our expense under the consulting agreement with Mr. Adams to serve as Chief Executive Officer for the year ended December 31, 2009 was $722,000. Our expense under the consulting agreement with Mr. Adams to serve as President and Chief Executive Officer from March 31, 2008 through December 31, 2008 was $900,000. During the first three months of 2008, the expense recorded under the Advisory Agreement was $862,000. The expense recorded under the Advisory Agreement was $3,625,000 for 2007.

*Facility Management Services* Subsidiaries of NHC have previously managed the former foreclosure properties for management fees equal to a weighted average of 5.35% of net revenues of the foreclosure properties. Management fees totaled $5,022,000 for the year ended December 31, 2007.

*Ownership of Common Stock* At December 31, 2009, NHC owned 1,630,462 shares of our common stock. At December 31, 2009, we owned 101,670 shares of NHC s convertible preferred stock.

## NOTE 16. DISCONTINUED OPERATIONS

As described in Note 3, we have accepted an earnest money deposit of $150,000 from the current lessee as part of negotiations to sell six skilled nursing facilities in Texas. We have classified these properties as held for sale in our Consolidated Balance Sheet as of December 31, 2009. The planned sale of these facilities meets the accounting criteria as being held for sale and we have reclassified the results of operations of these facilities as discontinued operations for all periods presented in our Consolidated Statements of Income.

*Kansas Facilities* During 2008, we recorded an impairment charge of $1,986,000 related to two Kansas facilities to reduce the carrying value of these facilities to fair value, less the estimated cost of selling the facility. One of the facilities, located in Hoisington, Kansas, was sold in November of 2008. At December 31, 2008, the remaining facility was classified as held for sale in the Consolidated Balance Sheet. The facility met the accounting criteria as being held for sale and the results of its operations have been reported in all periods as discontinued operations in the Consolidated Statements of Income. The fair value of the land, buildings and improvements less the cost to sell was estimated to be $200,000 at December 31, 2008. In February 2009, we recorded an impairment charge of $25,000 to reduce its carrying value to expected proceeds, less the cost to sell the facility. In March 2009, we completed the sale of the remaining facility in Emporia, Kansas for net cash proceeds of $175,000. The loss from discontinued operations of these facilities for year ended December 31, 2008 was $2,044,000 versus income of $82,000 for the same period in 2007.

*Washington Facilities* In September 2008, we recognized into income for financial and tax purposes $4,121,000 related to the cancelation of liabilities which existed at the date of sale in 2003 of two nursing home facilities in Washington. At the expiration of the five-year statute of limitations, management concluded based on advice from counsel that we were legally released from any potential liability settlements. During 2009, we recognized into income an additional $1,494,000 which met the aforementioned criteria.

*Foreclosure Properties* As described in Note 3, on December 31, 2007, we recognized the sale of 16 foreclosure properties and recorded mortgage notes receivable secured by the properties with a carrying value of $66,819,000. The transition resulted in a net gain on sale and deconsolidation of $12,469,000. The net carrying value of the assets and liabilities deconsolidated was $54,350,000.

*Milwaukee South Healthcare Center* In May 2007, we completed the sale of a facility in Milwaukee, Wisconsin to a third party and recognized a gain on sale of $669,000. Net cash proceeds were $2,288,000 and the carrying value of the property and equipment sold was $1,619,000.

For 2009, 2008 and 2007, we have reclassified for all periods presented the operations of the facilities meeting the accounting criteria as either being sold or held for sale as discontinued operations.

Table of Contents

Income from discontinued operations is as follows *(in thousands, except per share amounts)*:

| Year Ended December 31, | | 2009 | | 2008 | | 2007 |
|---|---|---|---|---|---|---|
| Revenues: | | | | | | |
| Rental income | $ | 5,000 | $ | 5,000 | $ | 5,473 |
| Facility operating revenue | | - | | - | | 93,383 |
| | | 5,000 | | 5,000 | | 98,856 |
| Expenses: | | | | | | |
| Interest | | - | | - | | 7 |
| Depreciation | | 992 | | 1,182 | | 4,821 |
| Facility operating expenses | | 26 | | 22 | | 86,302 |
| Impairment of real estate assets | | 25 | | 1,986 | | - |
| | | 1,043 | | 3,190 | | 91,130 |
| Operating income (loss) | | 3,957 | | 1,810 | | 7,726 |
| Non-operating income | | 2,136 | | 4,121 | | - |
| Gain on sale of assets | | - | | - | | 13,138 |
| Total discontinued operations | $ | 6,093 | $ | 5,931 | $ | 20,864 |
| | | | | | | |
| Weighted average common shares outstanding: | | | | | | |
| Basic | | 27,586,338 | | 27,706,106 | | 27,703,464 |
| Diluted | | 27,618,300 | | 27,731,951 | | 27,783,862 |
| | | | | | | |
| Discontinued operations income per common share: | | | | | | |
| Basic | $ | 0.22 | $ | 0.22 | $ | 0.75 |
| Diluted | $ | 0.22 | $ | 0.21 | $ | 0.75 |

**NOTE 17. NON-OPERATING INCOME**

Non-operating income is outlined in the table below *(in thousands)*:

| Year Ended December 31, | | 2009 | | 2008 | | 2007 |
|---|---|---|---|---|---|---|
| Dividends | $ | 4,668 | $ | 4,687 | $ | 4,654 |
| Realized gains (losses) on sales of securities | | 1,686 | | (410) | | 1,029 |
| Other-than-temporary impairment of marketable securities | | - | | (2,065) | | - |
| Recovery of previous write-down of marketable securities | | 717 | | - | | - |
| Interest income | | 1,241 | | 3,050 | | 7,066 |
| Gain on settlement of notes receivable | | - | | - | | 468 |
| Gain on sale of certificate of need - Davidson County, TN | | - | | 1,298 | | - |
| Other income (expense) | | 269 | | (73) | | (753) |
| | $ | 8,581 | $ | 6,487 | $ | 12,464 |

Table of Contents

## NOTE 18. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table sets forth selected quarterly financial data for the two most recent fiscal years (*in thousands, except per share amounts).*

| 2009 | | 1st<br>Quarter | | 2nd<br>Quarter | | 3rd<br>Quarter | | 4th<br>Quarter |
|---|---|---|---|---|---|---|---|---|
| Net Revenues | $ | 14,692 | $ | 14,827 | $ | 18,373 | $ | 16,329 |
| Non-operating income | | 1,735 | | 1,700 | | 1,856 | | 3,290 |
| Income from continuing operations | | 13,446 | | 12,924 | | 16,475 | | 15,291 |
| Discontinued operations - | | 1,603 | | 2,491 | | 999 | | 1,000 |
| Net income | $ | 15,049 | $ | 15,415 | $ | 17,474 | $ | 16,291 |
| Weighted average common shares outstanding: | | | | | | | | |
| Basic | | 27,574,544 | | 27,578,000 | | 27,589,161 | | 27,603,646 |
| Diluted | | 27,582,228 | | 27,592,050 | | 27,642,237 | | 27,656,684 |
| Earnings per share: | | | | | | | | |
| Basic: | | | | | | | | |
| Income from continuing operations | $ | 0.49 | $ | 0.47 | $ | 0.60 | $ | 0.55 |
| Discontinued operations | | 0.06 | | 0.09 | | 0.03 | | 0.04 |
| Net income per common share | $ | 0.55 | $ | 0.56 | $ | 0.63 | $ | 0.59 |
| Diluted: | | | | | | | | |
| Income from continuing operations | $ | 0.49 | $ | 0.47 | $ | 0.60 | $ | 0.54 |
| Discontinued operations | | 0.06 | | 0.09 | | 0.03 | | 0.04 |
| Net income per common share | $ | 0.55 | $ | 0.56 | $ | 0.63 | $ | 0.58 |

| 2008 | | 1st<br>Quarter | | 2nd<br>Quarter | | 3rd<br>Quarter | | 4th<br>Quarter |
|---|---|---|---|---|---|---|---|---|
| Net Revenues | $ | 14,109 | $ | 15,002 | $ | 14,369 | $ | 14,525 |
| Non-operating income | | 1,978 | | 1,785 | | 701 | | 2,023 |
| Income from continuing operations | | 12,484 | | 13,882 | | 12,457 | | 12,756 |
| Discontinued operations - | | 915 | | 911 | | 3,494 | | 611 |
| Net income | $ | 13,399 | $ | 14,793 | $ | 15,951 | $ | 13,367 |
| Weighted average common shares outstanding: | | | | | | | | |
| Basic | | 27,730,686 | | 27,753,051 | | 27,767,394 | | 27,573,294 |
| Diluted | | 27,786,425 | | 27,777,291 | | 27,785,708 | | 27,578,380 |
| Earnings per share: | | | | | | | | |
| Basic: | | | | | | | | |
| Income from continuing operations | $ | 0.45 | $ | 0.50 | $ | 0.45 | $ | 0.46 |
| Discontinued operations | | 0.03 | | 0.03 | | 0.12 | | 0.04 |
| Net income per common share | $ | 0.48 | $ | 0.53 | $ | 0.57 | $ | 0.50 |
| Diluted: | | | | | | | | |
| Income from continuing operations | $ | 0.45 | $ | 0.50 | $ | 0.45 | $ | 0.46 |
| Discontinued operations | | 0.03 | | 0.03 | | 0.12 | | 0.03 |
| Net income per common share | $ | 0.48 | $ | 0.53 | $ | 0.57 | $ | 0.49 |

Certain quarterly financial information shown above differs from amounts previously reported in the Forms 10-Q and Form 10-K for those periods due to reclassifications to retrospectively reflect the dispositions of certain facilities as discontinued operations for all periods presented.

Table of Contents

## ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 8A. CONTROLS AND PROCEDURES.

**Evaluation of Disclosure Controls and Procedures -** Based on their evaluation as of December 31, 2009, the CEO and principal accounting officer of the Company have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective to ensure that the information required to be disclosed by us in this Annual Report on Form 10-K was recorded, processed, summarized and reported within the time periods specified in the SEC s rules and instructions for Form 10-K. No change in our internal control over financial reporting occurred during our last fiscal quarter that materially affected, or is reasonably likely to affect, our internal control over financial reporting.

Table of Contents

## MANAGEMENT S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of National Health Investors, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company s internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2009 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on that assessment, management concluded that the Company s internal control over financial reporting was effective as of December 31, 2009. The Company s independent registered public accounting firm, BDO Seidman, LLP, has issued an attestation report on the effectiveness of the Company s internal control over financial reporting included herein.

Table of Contents

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

National Health Investors, Inc.

Murfreesboro, Tennessee

We have audited National Health Investors, Inc. s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). National Health Investors, Inc s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 8A, Management s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, National Health Investors, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of National Health Investors, Inc. as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders   equity, and cash flows for each of the three years in the period ended December 31, 2009 and our report dated February 20, 2010 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP

Nashville, Tennessee

February 20, 2010

## PART III

### ITEM 9. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

We have filed with the New York Stock Exchange ( NYSE ) the Annual CEO Certification regarding the Company s compliance with the NYSE s Corporate Governance listing standards as required by Section 303A.12(a) of the NYSE Listed Company Manual. Additionally, we have filed as exhibits to this annual report on Form 10-K for the year ended December 31, 2009, the applicable certifications of our Chief Executive Officer and our Chief Accounting Officer as required under Section 302 of the Sarbanes-Oxley Act of 2002.

Incorporated by reference from the information in our proxy statement for the 2010 annual meeting of stockholders, which we will file within 120 days of the end of the fiscal year to which this report relates.

### ITEM 10. EXECUTIVE COMPENSATION.

Incorporated by reference from the information in our proxy statement for the 2010 annual meeting of stockholders, which we will file within 120 days of the end of the fiscal year to which this report relates.

### ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Incorporated by reference from the information in our proxy statement for the 2010 annual meeting of stockholders, which we will file within 120 days of the end of the fiscal year to which this report relates.

## ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Incorporated by reference from the information in our proxy statement for the 2010 annual meeting of stockholders, which we will file within 120 days of the end of the fiscal year to which this report relates.

## ITEM 13. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Incorporated by reference from the information in our definitive proxy statement for the 2010 annual meeting of stockholders, which we will file within 120 days of the end of the fiscal year to which this report relates.

# PART IV

## ITEM 14. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a)

(1)

Financial Statements

The Consolidated Financial Statements are included in Item 7 and are filed as part of this report.

(2)

Financial Statement Schedules

The Financial Statement Schedules and Report of Independent Registered Public Accounting Firm on Financial Statement Schedules are listed in Exhibit 13.

(3)

Exhibits

Exhibits required as part of this report are listed in the Exhibit Index.

Table of Contents

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NATIONAL HEALTH INVESTORS, INC.

BY: /s/ W. Andrew Adams
W. Andrew Adams
Chief Executive Officer

Date: February 20, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ W. Andrew Adams<br>W. Andrew Adams | Chairman of the Board and Chief Executive Officer (Principal Executive Officer) | February 20, 2010 |
| /s/ Roger R. Hopkins<br>Roger R. Hopkins | Chief Accounting Officer (Principal Accounting Officer) | February 20, 2010 |
| /s/ Robert A. McCabe, Jr.<br>Robert A. McCabe, Jr. | Director | February 20, 2010 |

| | | |
|---|---|---|
| /s/ Robert T. Webb<br>Robert T. Webb | Director | February 20, 2010 |
| /s/ Ted H. Welch<br>Ted H. Welch | Director | February 20, 2010 |

Table of Contents

NATIONAL HEALTH INVESTORS, INC.

FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009

## EXHIBIT INDEX

| Exhibit No. | Description | Page No. or Location |
|---|---|---|
| 3.1 | Articles of Incorporation | Incorporated by reference to Exhibit 3.1 to Form S-11 Registration Statement No. 33-41863 |
| 3.2 | Bylaws | Incorporated by reference to Exhibit 3.2 to Form S-11 Registration Statement No. 33-41863 |
| 4.1 | Form of Common Stock Certificate | Incorporated by reference to Exhibit 39 to Form S-11 Registration Statement No. 33-41863 |
| 10.1 | Material Contracts | Incorporated by reference to Exhibits 10.1 thru 10.9 to Form S-4 Registration Statement No. 33-41863 |
| 10.2 | Amendment No. 5 to Master Agreement to Lease dated December 27, 2005, effective January 1, 2007. | Incorporated by reference to Exhibit 10.2 to Form 10-K dated March 10, 2006 |
| 10.3 | | Incorporated by reference |

| | | |
|---|---|---|
| | Advisory, Administrative Services and Facilities Agreement between National Health Investors, Inc. and Management Advisory Source, LLC dated November 1, 2004 | to Exhibit 10.3 to Form 10-K dated March 10, 2006 |
| 10.4 | 1997 Stock Option Plan | Incorporated by reference to the 1997 Proxy Statement as filed |
| 10.5 | 2005 Stock Option Plan | Incorporated by reference to Exhibit 4.10 to the Company s registration statement on Form S-8 filed August 4, 2005. |
| 10.6 | Excepted Holder Agreement W. Andrew Adams | Incorporated by reference to Exhibit 10.6 to Form 10-K dated February 24, 2009 |
| 10.7 | Form of Excepted Holder Agreements Parties other than W. Andrew Adams | Incorporated by reference to Exhibit 10.7 to Form 10-K dated February 24, 2009 |
| 10.8 | Consulting Agreement with W. Andrew Adams | Incorporated by reference to Exhibit 10.8 to Form 10-K dated February 24, 2009 |

Table of Contents

| | | |
|---|---|---|
| 10.9 | Amended and Restated Consulting Agreement entered into on the 25th day of February, 2009 between National Health Investors, Inc. and W. Andrew Adams<br>with W. Andrew Adams | Incorporated by reference<br>to Exhibit 10.1 to Form 10-Q dated May 5, 2009 |
| 10.10 | Employment Agreement with Justin Hutchens | Incorporated by reference to Exhibit 10.2 to Form 10-Q dated May 5, 2009 |
| 10.11 | Agreement with Care Foundation of America, Inc. | Filed herewith |
| 13 | Financial Statement Schedules | Filed herewith |
| 23.1 | Consent of Independent Registered Public Accounting Firm | Filed herewith |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer | Filed Herewith |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Principal Accounting Officer | Filed Herewith |
| 32 | Certification pursuant to 18 U.S.C. Section 1350 by Chief Executive Officer and Principal Accounting Officer | Filed Herewith |

Table of Contents

EXHIBIT 13

## NATIONAL HEALTH INVESTORS, INC.

## INDEX TO FINANCIAL STATEMENT SCHEDULES

Financial Statement Schedules

Report of Independent Registered Public Accounting Firm on Financial Statement Schedules

Schedule II - Valuation and Qualifying Accounts

Schedule III - Real Estate and Accumulated Depreciation

Schedule IV - Mortgage Loans on Real Estate

Table of Contents

**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders

National Health Investors, Inc.

Murfreesboro, Tennessee

The audits referred to in our report dated February 20, 2010 relating to the consolidated financial statements of National Health Investors, Inc., which is contained in Item 7 of this Form 10-K, included the audits of the financial statement schedules listed in the accompanying index. These financial statement schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statement schedules based upon our audits.

In our opinion such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ BDO Seidman, LLP

Nashville, Tennessee

February 20, 2010

Table of Contents

NATIONAL HEALTH INVESTORS, INC.
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008, AND 2007
*(in thousands)*

| | Balance | Additions | | |
|---|---|---|---|---|
| | Beginning | Charged to Costs | | Balance |
| Description | of Period | and Expenses (1) | Deductions | End of Period |
| For the year ended December 31, 2009 - Loan loss allowance | $ | $ | $ | $ |
| For the year ended December 31, 2008 - Loan loss allowance | $ | $ | $ | $ |
| For the year ended December 31, 2007 - Loan loss allowance | $ | $ | $ | $ |

(1) In the Consolidated Statements of Income, we report the net amount of our provision for loan and realty losses and our recoveries of amounts previously written down. For 2009, net recoveries were $1,077,000 and there was no provision for losses during the year. For 2008, there were no recoveries and there was no provision for losses during the year. For 2007, net recoveries were $24,238,000 and there was no provision for losses during the year.

NATIONAL HEALTH INVESTOR5S, INC.
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2009
(*in thousands*)

| | | Initial Cost to Company | | Cost Capitalized | Gross Amount at Which Carried at Close of Period | | | | Date |
|---|---|---|---|---|---|---|---|---|---|
| | | | Buildings | Subsequent | | Buildings | | | |
| | Encum- | | & | to | | & | | Accumulated | Acquired/ |
| Properties | brances | Land | Improvements | Acquisition | Land | Improvements | Total | Depreciation | Constructed |
| Skilled Nursing Facilities | | | | | | | | | |
| Anniston, AL | $ - | $ 70 | $ 4,477 | $ - | $ 70 | $ 4,477 | $ 4,547 | $ 2,817 | 10/17/1991 |
| Moulton, AL | - | 25 | 688 | - | 25 | 688 | 713 | 682 | 10/17/1991 |
| Avondale, AZ | - | 453 | 6,678 | - | 453 | 6,678 | 7,131 | 2,403 | 8/13/1996 |
| Hudson, FL | - | 413 | 10,742 | - | 413 | 10,742 | 11,155 | 6,189 | 10/17/1991 |
| Merritt Island, FL | - | 701 | 8,869 | - | 701 | 8,869 | 9,570 | 5,347 | 10/17/1991 |
| Plant City, FL | - | 405 | 8,777 | - | 405 | 8,777 | 9,182 | 5,783 | 10/17/1991 |
| Stuart, FL | - | 787 | 9,048 | - | 787 | 9,048 | 9,835 | 5,405 | 10/17/1991 |
| Rossville, GA | - | 52 | 865 | - | 52 | 865 | 917 | 852 | 10/17/1991 |
| Grangeville, ID | - | 122 | 2,491 | - | 122 | 2,491 | 2,613 | 900 | 8/13/1996 |
| Glasgow, KY | - | 33 | 1,751 | - | 33 | 1,751 | 1,784 | 1,259 | 10/17/1991 |
| Madisonville, KY | - | 198 | 431 | - | 198 | 431 | 629 | 380 | 10/17/1991 |
| Desloge, MO | - | 178 | 3,804 | - | 178 | 3,804 | 3,982 | 2,398 | 10/17/1991 |
| Joplin, MO | - | 175 | 4,034 | - | 175 | 4,034 | 4,209 | 2,010 | 10/17/1991 |
| Kennett, MO | - | 180 | 4,928 | - | 180 | 4,928 | 5,108 | 3,215 | 10/17/1991 |
| Maryland Heights, MO | - | 482 | 5,512 | - | 482 | 5,512 | 5,994 | 4,018 | 10/17/1991 |
| St. Charles, MO | - | 149 | 4,790 | - | 149 | 4,790 | 4,939 | 3,027 | 10/17/1991 |
| Anderson, SC | - | 308 | 4,643 | - | 308 | 4,643 | 4,951 | 3,444 | 10/17/1991 |
| Greenwood, SC | - | 222 | 3,457 | - | 222 | 3,457 | 3,679 | 2,588 | 10/17/1991 |
| Laurens, SC | - | 42 | 3,426 | - | 42 | 3,426 | 3,468 | 2,280 | 10/17/1991 |
| Orangeburg, SC | - | 300 | 3,715 | - | 300 | 3,715 | 4,015 | 128 | 9/25/2008 |
| Athens, TN | - | 38 | 1,463 | - | 38 | 1,463 | 1,501 | 1,223 | 10/17/1991 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Chattanooga, TN | - | 143 | 2,309 | - | 143 | 2,309 | 2,452 | 1,772 | 10/17/1991 |
| Columbia, TN | - | 96 | 651 | - | 96 | 651 | 747 | 574 | 10/17/1991 |
| Dickson, TN | - | 90 | 3,541 | - | 90 | 3,541 | 3,631 | 2,440 | 10/17/1991 |
| Franklin, TN | - | 47 | 1,130 | - | 47 | 1,130 | 1,177 | 798 | 10/17/1991 |
| Hendersonville, TN | - | 363 | 2,991 | - | 363 | 2,991 | 3,354 | 1,269 | 10/17/1991 |
| Columbia, TN | - | 58 | 716 | - | 58 | 716 | 774 | 525 | 10/17/1991 |
| Johnson City, TN | - | 85 | 1,918 | - | 85 | 1,918 | 2,003 | 1,600 | 10/17/1991 |
| Knoxville, TN | - | 384 | 2,692 | - | 384 | 2,692 | 3,076 | 1,974 | 10/17/1991 |
| Lewisburg, TN | - | 30 | 708 | - | 30 | 708 | 738 | 570 | 10/17/1991 |
| McMinnville, TN | - | 73 | 3,618 | - | 73 | 3,618 | 3,691 | 2,418 | 10/17/1991 |
| Milan, TN | - | 41 | 1,826 | - | 41 | 1,826 | 1,867 | 1,303 | 10/17/1991 |
| Lewisburg, TN | - | 16 | 287 | - | 16 | 287 | 303 | 286 | 10/17/1991 |
| Pulaski, TN | - | 54 | 3,921 | - | 54 | 3,921 | 3,975 | 2,537 | 10/17/1991 |

Table of Contents

NATIONAL HEALTH INVESTOR5S, INC.

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION

DECEMBER 31, 2009

*(in thousands)*

| | | | | | Gross Amount at Which | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Initial Cost to Company | | Cost Capitalized | Carried at Close of Period | | | | Date |
| | | | Buildings | Subsequent | | Buildings | | | |
| | Encum- | | & | to | | & | | Accumulated | Acquired/ |
| Properties | brances | Land | Improvements | Acquisition | Land | Improvements | Total | Depreciation | Constructed |
| Lawrenceburg, TN | - | 98 | 2,900 | - | 98 | 2,900 | 2,998 | 1,797 | 10/17/1991 |
| Dunlap, TN | - | 35 | 3,679 | - | 35 | 3,679 | 3,714 | 2,069 | 10/17/1991 |
| Smithville, TN | - | 35 | 3,816 | - | 35 | 3,816 | 3,851 | 2,380 | 10/17/1991 |
| Somerville, TN | - | 26 | 678 | - | 26 | 678 | 704 | 556 | 10/17/1991 |
| Sparta, TN | - | 80 | 1,601 | - | 80 | 1,601 | 1,681 | 1,097 | 10/17/1991 |
| Springfield, TN | - | 44 | 854 | - | 44 | 854 | 898 | 854 | 10/17/1991 |
| Dripping Springs, TX | - | 100 | 1,059 | - | 100 | 1,059 | 1,159 | 168 | 3/16/2005 |
| Gainesville, TX | - | 200 | 3,640 | - | 200 | 3,640 | 3,840 | 520 | 3/16/2005 |
| Paris, TX | - | 60 | 12,040 | - | 60 | 12,040 | 12,100 | 183 | 6/30/2009 |
| San Antonio, TX | - | 300 | 12,150 | - | 300 | 12,150 | 12,450 | 201 | 6/30/2009 |
| East Houston, TX | - | 650 | 14,550 | - | 650 | 14,550 | 15,200 | 219 | 6/30/2009 |
| NW Houston, TX | - | 1,100 | 14,700 | - | 1,100 | 14,700 | 15,800 | 184 | 7/31/2009 |
| Bristol, VA | - | 176 | 2,511 | - | 176 | 2,511 | 2,687 | 1,622 | 10/17/1991 |
| | - | 9,717 | 195,075 | - | 9,717 | 195,075 | 204,792 | 86,264 | |

Assisted Living Facilities

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Gilbert, AZ | - | 451 | 3,142 | - | 451 | 3,142 | 3,593 | 861 | 12/31/1998 |
| Glendale, AZ | - | 387 | 3,824 | - | 387 | 3,824 | 4,211 | 1,048 | 12/31/1998 |
| Tucson, AZ | - | 477 | 3,742 | - | 477 | 3,742 | 4,219 | 1,010 | 3/31/1999 |
| Tucson, AZ | - | 442 | 2,914 | - | 442 | 2,914 | 3,356 | 798 | 12/31/1998 |
| Maitland, FL | - | 1,687 | 5,428 | - | 1,687 | 5,428 | 7,115 | 1,941 | 12/23/1998 |
| Daytona Beach , FL | - | 320 | 2,668 | - | 320 | 2,668 | 2,988 | 731 | 12/23/1998 |
| Maitland, FL | - | 2,317 | 9,161 | - | 2,317 | 9,161 | 11,478 | 4,315 | 8/6/1996 |
| W. Palm Beach, FL | - | 2,771 | 4,286 | - | 2,771 | 4,286 | 7,057 | 3,244 | 8/6/1996 |
| Peoria, IL | 1 | 403 | 4,531 | 1 | 403 | 4,532 | 4,935 | 10 | 10/19/2009 |
| Midland, MI | 2 | 504 | 6,610 | 2 | 504 | 6,612 | 7,116 | 15 | 10/19/2009 |
| Battle Creek, MI | 3 | 398 | 3,090 | 3 | 398 | 3,093 | 3,491 | 7 | 10/19/2009 |
| Lansing, MI | 4 | 340 | 7,904 | 4 | 340 | 7,908 | 8,248 | 18 | 10/19/2009 |
| Saginaw, MI | 5 | 248 | 4,207 | 5 | 248 | 4,212 | 4,460 | 10 | 10/19/2009 |
| Edison, NJ | - | 4,229 | 13,030 | - | 4,229 | 13,030 | 17,259 | 5,296 | 8/6/1996 |
| Weatherly, PA | - | 439 | 3,960 | - | 439 | 3,960 | 4,399 | 429 | 9/1/2005 |
| Conway, SC | - | 344 | 2,877 | - | 344 | 2,877 | 3,221 | 788 | 12/31/1998 |
| Gallatin, TN | - | 326 | 2,277 | - | 326 | 2,277 | 2,603 | 614 | 3/31/1999 |
| Kingsport, TN | - | 354 | 2,568 | - | 354 | 2,568 | 2,922 | 703 | 12/31/1998 |
| Tullahoma, TN | - | 191 | 2,216 | - | 191 | 2,216 | 2,407 | 598 | 3/31/1999 |
| | 15 | 16,628 | 88,435 | 15 | 16,628 | 88,450 | 105,078 | 22,436 | |

Table of Contents

NATIONAL HEALTH INVESTOR5S, INC.

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION

DECEMBER 31, 2009

(*in thousands)*

| | | Initial Cost to Company | | Cost Capitalized | Gross Amount at Which Carried at Close of Period | | | | Date |
|---|---|---|---|---|---|---|---|---|---|
| | Encum- | | Buildings & | Subsequent to | | Buildings & | | Accumulated | Acquired/ |
| Properties | brances | Land | Improvements | Acquisition | Land | Improvements | Total | Depreciation | Constructed |
| Acute Care Hospital | | | | | | | | | |
| Jackson, KY | - | 540 | 10,163 | - | 540 | 10,163 | 10,703 | 4,705 | 6/12/1992 |
| Independent Living Facilities | | | | | | | | | |
| Nampa, ID | - | 243 | 4,182 | - | 243 | 4,182 | 4,425 | 1,487 | 8/13/1996 |
| St. Charles, MO | - | 344 | 3,181 | - | 344 | 3,181 | 3,525 | 1,960 | 10/17/1991 |
| Johnson City, TN | - | 55 | 4,078 | - | 55 | 4,078 | 4,133 | 2,068 | 10/17/1991 |
| Chattanooga, TN | - | 9 | 1,567 | - | 9 | 1,567 | 1,576 | 966 | 10/17/1991 |
| | - | 651 | 13,008 | - | 651 | 13,008 | 13,659 | 6,481 | |
| Medical Office Buildings | | | | | | | | | |
| Crestview, FL | - | 165 | 3,349 | - | 165 | 3,349 | 3,514 | 1,830 | 6/30/1993 |
| Mt. Vernon, IL | - | - | 1,925 | - | - | 1,925 | 1,925 | 614 | 12/31/1998 |
| Hillsboro, TX | - | - | 3,336 | - | - | 3,336 | 3,336 | 1,067 | 7/31/1997 |
| | - | 631 | 6,341 | - | 631 | 6,341 | 6,972 | 3,497 | 1/1/1995 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Pasadena, TX | - | 796 | 14,951 | - | 796 | 14,951 | 15,747 | 7,008 |
| Total continuing operations properties | 15 | 28,332 | 321,632 | 15 | 28,332 | 321,647 | 349,979 | 126,894 |
| Corporate assets | - | 158 | 649 | - | 158 | 649 | 807 | 31 |
| | $ 15 | $ 28,490 | $ 322,281 | $ 15 | $ 28,490 | $ 322,296 | $ 350,786 | $ 126,925 |

NOTES TO SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION

(A) See Notes 3 and 15 of Notes to Consolidated Financial Statements.

(B) Depreciation is calculated using estimated depreciation lives up to 40 years for all completed facilities.

(C) Subsequent to NHC s transfer of the original real estate properties in 1991, we have purchased from NHC $33,909,000 of additions to those properties. As the additions were purchased from NHC rather than developed by us, the $33,909,000 has been included as Initial Cost to Company.

(D) This schedule excludes assets held for sale with an original cost of $44,689,000 and accumulated depreciation of $11,269,000.

NATIONAL HEALTH INVESTORS, INC.

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

| | | December 31, | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | | *(in thousands)* | |
| Investment in Real Estate: | | | |
| Balance at beginning of period | $ 310,906 | $ 309,407 | $ 376,407 |
| Additions through cash expenditures | 81,569 | 4,048 | 2,491 |
| Additions through contingent liabilities | 3,000 | - | - |
| Sale of properties for cash | - | (133) | (69,491) |
| Impairment write-downs | - | (1,986) | - |
| Reclassification for assets held for sale | (44,689) | (430) | - |
| Balance at end of year | $ 350,786 | $ 310,906 | $ 309,407 |
| | | | |
| Accumulated Depreciation: | | | |
| Balance at beginning of period | $ 129,574 | $ 121,952 | $ 141,208 |
| Addition charged to costs and expenses | 8,620 | 7,943 | 11,751 |
| Sale of properties | - | (91) | (31,007) |
| Reclassification for assets held for sale | (11,269) | (230) | - |
| Balance at end of year | $ 126,925 | $ 129,574 | $ 121,952 |

Table of Contents

NATIONAL HEALTH INVESTORS, INC.
SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE[1]
DECEMBER 31, 2009

| Description | Interest Rate | Final Maturity Date | Monthly Payment Terms | Prior Liens | Original Face Amount of Mortgages | Carrying Amount of Mortgages[2] | Principal Amount of Loan Subject To Delinquent Principal or Interest |
|---|---|---|---|---|---|---|---|
| Florida (A) | 9.5% | 2008 | $353,000 | None | $32,708,000 | $ 22,936,000 | $ 22,936,000 |
| Georgia(B) | 9.0% | January 2010 | 120,000 | None | 12,162,000 | 6,217,000[3] | None |
| 8 Mortgages, Massachusetts and New Hampshire ($1,125,000 to $9,005,000 each) | 6.9% | August 2011 | 9,000 to 69,000 | None | 40,526,000 | 21,328,000 | None |
| Atlanta, Georgia (B) | 6.5% | September, 2013 | 22,000 | None | 5,158,000 | 728,000[3] | None |
| 8 Mortgages, Kansas and Missouri<br>($707,000 to $2,082,000 each) (C) | 3.0% to 8.5% | December 2014 | 8,000 to 25,000 | None | 26,293,000 | 21,614,000 | None |
| Madras, Oregon | 12% | February 2014 | | None | 850,000 | 600,000 | None |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Interest Only | | | | |
| Owatonna, Minnesota | 7.47% | February 2018 | 38,000 | None | 5,033,000 | 3,886,000 | None |
| Dripping Springs & Gainesville, Texas | 9.0% | March, 2019 | 19,000 | None | 2,500,000 | 2,500,000 | None |
| 7 Mortgages, Virginia | 8.0%-9.6% | August 2027 to June 2032 | 19,000 to 32,000 | None | 20,774,000 | 14,779,000 | None |
| ($2,134,000 to $3,935,000 each) | | | | | | | |
| | | | | | | $94,588,000 | |

NOTES TO SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE

(A) NHI s original face amount of the mortgage was $25,900,000. In May 2007, we purchased the second mortgage whose original amount was $6,808,000 for its then current balance of $6,186,000. The carrying amount of $22,936,000 is the current balance of the first and second mortgage. As discussed in Note 9 to the consolidated financial statements, the note was settled in full in February 2010 when we acquired the underlying collateral facilities.

(B) We have reduced the carrying amount of this mortgage loan by a reserve or write-off. The reserve or write-off is based on our knowledge of the general

economic condition in the long-term health care industry and the cash flows of the long-term health care facilities that service the mortgage loan.

(C) Note A in the original amount of $16,513,000 is at 8.5%. Note B in the original amount of $9,780,000 is at 3% with all principal and interest due at maturity.

(1) See Note 4 to Consolidated Financial Statements for more information on our mortgage loan receivables.

(2) For tax purposes, the cost of investments is the carrying amount.

(3) Loan is currently on non-accrual status. We recognize interest income in the period in which cash is received.

Table of Contents

NATIONAL HEALTH INVESTORS, INC.

SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE (continued)

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

| | | December 31, | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| | | *(in thousands)* | |
| Reconciliation of mortgage loans | | | |
| Balance at beginning of period | $ 108,640 | $ 134,605 | $ 90,782 |
| Additions: | | | |
| New mortgage loans | 4,501 | | 74,835 |
| Total Additions | 4,501 | | 74,835 |
| Deductions during period: | | | |
| Collection of principal, net | 18,553 | 25,965 | 31,012 |
| Total Deductions | 18,553 | 25,965 | 31,012 |
| Balance at end of period | $ 94,588 | $ 108,640 | $ 134,605 |

nt:-18px;font-size:10pt;">Leverage ratio (indebtedness divided by adjusted EBITDA):

Indebtedness

$
268,500

$
217,500

Adjusted EBITDA

$
140,355

$
143,063

Leverage ratio

1.9:1

1.5:1

(1) For the three months ended September 30, 2015, excludes $264,000 of depreciation and amortization and for the nine months and trailing twelve months ended September 30, 2015, excludes $493,000 of depreciation and amortization, which are included in the non-recurring restructuring expenses related to U.S. consumer loan operations.

Free Cash Flow

For purposes of its internal liquidity assessments, the Company considers free cash flow, which is defined as cash flow from the operating activities of continuing and discontinued operations reduced by purchases of property and equipment and net cash outflow from loan receivables. Free cash flow is commonly used by investors as a measure of cash generated by business operations that will be used to repay scheduled debt maturities and can be used to invest in future growth through new business development activities or acquisitions, repurchase stock, or repay debt obligations prior to their maturities. These metrics can also be used to evaluate the Company's ability to generate cash flow from business operations and the impact that this cash flow has on the Company's liquidity. However, free cash flow has limitations as an analytical tool and should not be considered in isolation or as a substitute for cash flow from operating activities, including discontinued operations, or other income statement data prepared in accordance with GAAP. The following table reconciles "net cash flow from operating activities, including discontinued operations" to "free cash flow" (unaudited, in thousands):

| | Trailing Twelve Months Ended September 30, | |
|---|---|---|
| | 2015 | 2014 |
| Cash flow from operating activities, including discontinued operations | $93,473 | $102,027 |
| Cash flow from investing activities: | | |
| Loan receivables | (445) | (8,095) |
| Purchases of property and equipment | (21,681) | (26,528) |
| Free cash flow | $71,347 | $67,404 |

Constant Currency Results

The Company's reporting currency is the U.S. dollar. However, certain performance metrics discussed in this report are presented on a "constant currency" basis, which may be considered a non-GAAP measurement of financial performance. The Company's management uses constant currency results to evaluate operating results of certain business operations in Mexico, which are transacted in Mexican pesos. The scrap jewelry generated in Mexico is exported and sold in U.S. dollars, which does not contribute to the Company's peso-denominated revenue stream. Constant currency results reported herein are calculated by translating certain balance sheet and income statement items denominated in Mexican pesos using the exchange rate from the prior-year comparable period, as opposed to the current comparable period, in order to exclude the effects of foreign currency rate fluctuations for purposes of evaluating period-over-period comparisons. The following table provides exchange rates for the current and prior year periods (unaudited):

| | September 30, | | |
|---|---|---|---|
| | 2015 | 2014 | Decrease |
| Mexican peso / U.S. dollar exchange rate: | | | |
| End-of-period | 17.0 | 13.5 | (26)% |
| Three months ended | 16.4 | 13.1 | (25)% |
| Nine months ended | 15.5 | 13.1 | (18)% |

Regulatory Developments

The Company is subject to significant regulation of its pawn, consumer loan and general business operations in all of the jurisdictions in which it operates. These regulations are implemented through various laws, ordinances and regulatory pronouncements from federal, state and municipal governmental entities in the United States and Mexico. These regulatory bodies often have broad discretionary authority in the establishment, interpretation and enforcement of such regulations. These regulations are often subject to change, sometimes significantly, as a result of political, economic or social trends, events and media perceptions.

The Company is subject to specific laws, ordinances and regulations primarily concerning its pawn and consumer lending operations. Many statutes and regulations prescribe, among other things, the general terms of the Company's pawn and consumer loan agreements, including maximum service fees and/or interest rates that may be charged and collected. In many jurisdictions in both the United States and Mexico, the Company must obtain and maintain regulatory operating licenses and comply with regular or frequent regulatory reporting and registration requirements, including reporting and recording of pawn loans, pawned collateral, used merchandise purchased from the general public, retail sales activities, firearm transactions, export, import and transfer of merchandise, and currency transactions, among other things.

In both the United States and Mexico, governmental action to further restrict or even prohibit pawn loans and transactions or small consumer loans, such as payday advances and credit services products, has been advocated over the past few years by elected officials, regulators, consumer advocacy groups and by media. The consumer groups and media typically focus on the aggregated cost to a consumer for pawn and consumer loans, which is typically higher than the interest generally charged by banks, credit unions and credit card issuers to a more creditworthy consumer. They also focus on affordability issues such as the borrower's ability to repay such loans, real or perceived patterns of sustained or cyclical usage of such lending products and consumer loan collection practices perceived to be unfair or abusive. The consumer groups and media articles often characterize pawn and especially payday lending activities as unfair or potentially abusive to consumers. During the last few years, in both the United States and Mexico, legislation or ordinances (on federal, state and municipal levels) have been introduced or enacted to prohibit, restrict or further regulate pawn loans and related transactions, including acceptance of pawn collateral, sale of merchandise, payday loans, consumer loans, credit services and related service fees. In addition, regulatory authorities in various levels of government in the United States and Mexico have and will likely continue to propose or publicly address new or expanded regulations that would prohibit or further restrict pawn and consumer lending activities, or other related pawn transactions. Existing regulations and recent regulatory developments are described in greater detail in the Company's annual report on Form 10-K for the year ended December 31, 2014, which is supplemented with the discussion provided in the following paragraphs.

In March 2015, the Federal Consumer Financial Protection Bureau ("CFPB") published proposed rules significantly affecting payday loans, vehicle title loans, deposit advance products, high-cost installment and open ended loans, lines of credit and other loans ("Proposed Rules"). The Proposed Rules, among other things, would require additional underwriting criteria, cooling-off periods between certain loans and limitations to prevent the sustained use of certain loans. For example, the Proposed Rules would require lenders to analyze whether consumers can afford and repay the loans without incurring increasing costs, cap loan amounts, limit vehicles as collateral, cap the number of rollovers at two (three loans total) and require that the principal decrease with each rollover loan so that it is repaid after the third loan or provide a no-cost "off-ramp" after the third loan. The Proposed Rules would also restrict lenders from attempting to collect payment from consumers' bank accounts in ways that cause the consumer to incur excessive bank fees. The CFPB published the Proposed Rules under consideration in preparation for convening a Small Business Review Panel to gather feedback from industry experts, small lenders, and the business community which is the next step in the rule-making process. The Proposed Rules are not final and could change significantly.

The Company does not currently anticipate that the Proposed Rules will materially affect the Company's pawn loan products; however, the Company's consumer loan, credit services and vehicle title loan products could be affected if they are finally adopted as written. It is not possible to accurately predict the scope, extent, nature or effect of the Proposed Rules. Further, there can be no assurance that the CFPB will not propose or adopt future rules affecting pawn or short-term lending products, such as payday, title lending and credit services products, making them materially less profitable or even impractical to offer.

Primarily as a result of municipal ordinances enacted in certain cities in Texas, which further restrict payday and title lending operations, the Company has closed 14 stand-alone consumer loan stores year-to-date and plans to close at least eight additional stand-alone consumer loan stores during the fourth quarter. After these closings, the Company will have no stand-alone consumer loan stores in markets with currently enacted municipal ordinances further restricting payday and title lending operations. Due to the impacts of recently enacted and additional proposed local, state and federal regulatory restrictions affecting short-term and long-term profitability expectations for payday and title lending products, the Company's long-term ongoing strategy to reduce non-core consumer lending operations along with significant deterioration in payday lending market conditions, the Company recorded a $7,913,000 goodwill impairment charge during the third quarter of 2015 related to its U.S. consumer loan operations reporting unit. As of September 30, 2015, the Company has no remaining goodwill or other intangible assets associated with this reporting unit. During the nine months ended September 30, 2015, the Company's consumer and vehicle loan operations represented approximately 4% of the Company's overall revenues.

In July 2015, the Department of Defense published a finalized set of new rules ("MLA Rules") under the Military Lending Act ("MLA"). The MLA has historically restricted the Company from offering its short-term, unsecured credit products to members of the military or their dependents because none of the Company's short-term unsecured credit products carry a military annual percentage rate of 36% or less for a specified term. The new MLA Rules now expand the scope of the credit products to include certain loans secured by personal property or vehicles and certain unsecured installment loan products to the extent any of such products have an annual percentage rate greater than 36%. Once the new rule takes effect, the Company may not be able to offer any of its current credit products (including pawn loans) to members of the military or their dependents because current product offerings do not conform to the MLA Rules. The new MLA Rules are scheduled to become effective on October 3, 2016. Compliance with the new MLA

Rules could be complex and increase compliance costs; however, the Company does not expect compliance with the new MLA Rules to have a material adverse impact on the Company’s financial condition or operating results once the rules take effect.

The Company is subject to numerous other types of regulations, including but not limited to, regulations related to securities and exchange activities, including financial reporting and internal controls processes, data protection and privacy, tax compliance, labor and employment practices, real estate transactions, electronic banking, credit card transactions, marketing, and advertising and other general business activities.

There can be no assurance that additional local, state or federal statutes or regulations in either the United States or Mexico will not be enacted or that existing laws and regulations will not be amended, decreed or interpreted at some future date that could prohibit or limit the ability of the Company to profitably operate any or all of its services. For example, such regulations could restrict the ability of the Company to offer pawn loans, consumer loans and credit services, or significantly decrease the interest rates or service fees for such lending activities, or prohibit or more stringently regulate the acceptance of pawn collateral, sale, exportation or importation of pawn merchandise, or processing of consumer loan transactions through the banking system, any of which could have a material adverse effect on the Company’s operations and financial condition. If legislative or regulatory actions or interpretations are taken at a federal, state or local jurisdiction level in the United States or Mexico which negatively affect the pawn, consumer loan or credit services industries where the Company has a significant number of stores, those actions could have a material adverse effect on the Company’s business operations. There can be no assurance that such regulatory action at any jurisdiction level in the United States or Mexico will not be enacted, or that existing laws and regulations will not be amended, decreed or interpreted in such a way which could have a material adverse effect on the Company’s operations and financial condition.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to the Company’s operations result primarily from changes in interest rates, gold prices and foreign currency exchange rates, and are described in detail in the Company’s 2014 annual report on Form 10-K. The impact of current-year fluctuations in gold prices and foreign currency exchange rates, in particular, are further discussed in Part I, Item 2 herein. There have been no material changes to the Company’s exposure to market risks since December 31, 2014.

## ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, management of the Company has evaluated the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) (the “Exchange Act”) as of September 30, 2015 (the “Evaluation Date”). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, the Company’s disclosure controls and procedures are effective (i) to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms; and (ii) to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

There was no change in the Company’s internal control over financial reporting during the quarter ended September 30, 2015 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

The Company’s management, including its Chief Executive Officer and Chief Financial Officer, does not expect that the Company’s disclosure controls and procedures or internal controls will prevent all possible error and fraud. The Company’s disclosure controls and procedures are, however, designed to provide reasonable assurance of achieving their objectives, and the Company’s Chief Executive Officer and Chief Financial Officer have concluded that the Company’s disclosure controls and procedures are effective at that reasonable assurance level.

# PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

There have been no material changes in the status of legal proceedings previously reported in the Company’s 2014 annual report on Form 10-K.

## ITEM 1A. RISK FACTORS

Important risk factors that could affect the Company’s operations and financial performance, or that could cause results or events to differ from current expectations, are described in Part I, Item 1A, “Risk Factors” of the Company’s 2014 annual report on Form 10-K. These factors are supplemented by those discussed under “Management’s Discussion And Analysis Of Financial Condition And Results Of Operations” and “Regulatory Developments” in Part I, Item 2 of this quarterly report and in “Governmental Regulation” in Part I, Item 1 of the Company’s 2014 annual report on Form 10-K.

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

During the period from January 1, 2015 through September 30, 2015, the Company issued 145,000 shares of common stock relating to the exercise of outstanding stock options for an aggregate exercise price of $4,518,000 (including income tax benefit). During the period from January 1, 2015 through September 30, 2015, the Company granted a total of 45,000 nonvested shares of restricted common stock to certain executives of the Company. A total of 5,000 previously granted restricted shares vested and were issued during the period from January 1, 2015 through September 30, 2015.

The transactions set forth in the above paragraph were completed pursuant to Section 4(2) of the Securities Act, did not involve a public offering and were sold to a limited group of persons. Each recipient either received adequate information about the Company or had access, through employment or other relationships, to such information, and the Company determined that each recipient had such knowledge and experience in financial and business matters that they were able to evaluate the merits and risks of an investment in the Company. All sales of the Company’s securities were made by officers of the Company who received no commission or other remuneration for the solicitation of any person in connection with the respective sales of securities described above.

In January 2015, the Company’s Board of Directors authorized a repurchase program for up to 2,000,000 shares of the Company’s outstanding common stock. During the nine months ended September 30, 2015, the Company repurchased 661,000 shares of its common stock at an aggregate cost of $31,974,000 at an average price of $48.37 per share and 1,339,000 shares remain available for repurchase under the repurchase program. Under its share repurchase program, the Company can purchase common stock in open market transactions, block or privately negotiated transactions, and may from time to time purchase shares pursuant to a trading plan in accordance with Rule 10b5-1 and Rule 10b-18 under the Exchange Act, or by any combination of such methods. The number of shares to be purchased and the timing of the purchases are based on a variety of factors, including, but not limited to, the level of cash balances, credit availability, debt covenant restrictions, general business conditions, regulatory requirements, the market price of the Company's stock and the availability of alternative investment opportunities. No time limit was set for completion of repurchases under the authorization and the program may be suspended or discontinued at any time.

The following table provides the information with respect to purchases made by the Company of shares of its common stock during each month that the program was in effect during the nine months ended September 30, 2015:

| | Total Number Of Shares Purchased | Average Price Paid Per Share | Total Number Of Shares Purchased As Part Of Publicly Announced Plans | Maximum Number Of Shares That May Yet Be Purchased Under The Plans |
|---|---|---|---|---|
| January 1 through January 31, 2015 | 79,600 | $49.94 | 79,600 | 1,920,400 |
| February 1 through February 28, 2015 | 256,002 | 50.78 | 256,002 | 1,664,398 |
| March 1 through March 31, 2015 | — | — | — | 1,664,398 |
| April 1 through April 30, 2015 | 127,115 | 47.20 | 127,115 | 1,537,283 |
| May 1 through May 31, 2015 | — | — | — | 1,537,283 |
| June 1 through June 30, 2015 | — | — | — | 1,537,283 |
| July 1 through July 31, 2015 | 198,373 | 45.37 | 198,373 | 1,338,910 |
| August 1 through August 31, 2015 | — | — | — | 1,338,910 |
| September 1 through September 30, 2015 | — | — | — | 1,338,910 |
| Total | 661,090 | $48.37 | 661,090 | |

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

Table of Contents

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

| | | Incorporated by Reference | | | | |
|---|---|---|---|---|---|---|
| Exhibit No. | Exhibit Description | Form | File No. | Exhibit | Filing Date | Filed Herewith |
| 3.1 | Amended Certificate of Incorporation | DEF 14A | 0-19133 | A | 04/29/2004 | |
| 3.2 | Amended Bylaws | 10-K | 0-19133 | 3.2 | 03/31/2000 | |
| 4.1 | Common Stock Specimen | S-1 | 33-48436 | 4.2a | 06/05/1992 | |
| 4.2 | Indenture, dated as of March 24, 2014, by and among First Cash Financial Services, Inc., the guarantors listed therein and BOKF, NA, dba Bank of Texas (including the form of Note attached as an exhibit thereto) | 8-K | 0-19133 | 4.1 | 03/25/2014 | |
| 31.1 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act provided by Rick L. Wessel, Chief Executive Officer | | | | | X |
| 31.2 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act provided by R. Douglas Orr, Chief Financial Officer | | | | | X |
| 32.1 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 provided by Rick L. Wessel, Chief Executive Officer | | | | | X |
| 32.2 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 provided by R. Douglas Orr, Chief Financial Officer | | | | | X |
| 101 (1) | The following financial information from the Company's Quarterly Report on Form 10-Q for the third quarter of fiscal 2015, filed with the SEC on October 28, 2015, is formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets at September 30, 2015, September 30, 2014 and December 31, 2014, (ii) Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2015 and September 30, 2014, (iii) Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2015 and September 30, 2014, (iv) | | | | | X |

Condensed Consolidated Statements of Changes in Stockholders' Equity for the nine months ended September 30, 2015 and September 30, 2014, (v) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and September 30, 2014 and (vi) Notes to Condensed Consolidated Financial Statements.

(1) The XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

SIGNATURES

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

| | |
|---|---|
| Dated: October 28, 2015 | FIRST CASH FINANCIAL SERVICES, INC.<br>(Registrant) |
| | /s/ RICK L. WESSEL<br>Rick L. Wessel<br>Chief Executive Officer<br>(Principal Executive Officer) |
| | /s/ R. DOUGLAS ORR<br>R. Douglas Orr<br>Executive Vice President and Chief Financial Officer<br>(Principal Financial and Accounting Officer) |

Table of Contents

INDEX TO EXHIBITS

| | | Incorporated by Reference | | | | |
|---|---|---|---|---|---|---|
| Exhibit No. | Exhibit Description | Form | File No. | Exhibit | Filing Date | Filed Herewith |
| 3.1 | Amended Certificate of Incorporation | DEF 14A | 0-19133 | A | 04/29/2004 | |
| 3.2 | Amended Bylaws | 10-K | 0-19133 | 3.2 | 03/31/2000 | |
| 4.1 | Common Stock Specimen | S-1 | 33-48436 | 4.2a | 06/05/1992 | |
| 4.2 | Indenture, dated as of March 24, 2014, by and among First Cash Financial Services, Inc., the guarantors listed therein and BOKF, NA, dba Bank of Texas (including the form of Note attached as an exhibit thereto) | 8-K | 0-19133 | 4.1 | 03/25/2014 | |
| 31.1 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act provided by Rick L. Wessel, Chief Executive Officer | | | | | X |
| 31.2 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act provided by R. Douglas Orr, Chief Financial Officer | | | | | X |
| 32.1 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 provided by Rick L. Wessel, Chief Executive Officer | | | | | X |
| 32.2 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 provided by R. Douglas Orr, Chief Financial Officer | | | | | X |
| 101 (1) | The following financial information from the Company's Quarterly Report on Form 10-Q for the third quarter of fiscal 2015, filed with the SEC on October 28, 2015, is formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets at September 30, 2015, September 30, 2014 and December 31, 2014, (ii) Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2015 and September 30, 2014, (iii) Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2015 and September 30, 2014, (iv) Condensed Consolidated Statements of Changes in Stockholders’ Equity for the nine months ended September 30, 2015 | | | | | X |

and September 30, 2014, (v) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and September 30, 2014 and (vi) Notes to Condensed Consolidated Financial Statements.

(1) The XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.