CAPITAL TRUST INC
Form DEF 14A
April 29, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No. ___)

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

CAPITAL TRUST, INC.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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CAPITAL TRUST, INC.
410 Park Avenue, 14th Floor
New York, New York 10022

April 29, 2010

Dear Shareholders:

You are cordially invited to attend the 2010 annual meeting of shareholders of Capital Trust, Inc., which will be held at 10:00 a.m., local time, on Thursday, June 24, 2010, at the offices of Paul, Hastings, Janofsky & Walker LLP, 75 East 55th Street, New York, New York 10022. At the annual meeting, shareholders will be asked to elect directors, ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2010 and act upon such other business as may properly come before the meeting, all as described in the attached notice of annual meeting of shareholders and proxy statement.

This year, we will be using the Notice and Access method of providing proxy materials to you via the Internet. We believe that this new process will provide you with a convenient and quick way to access the proxy materials, including our proxy statement and 2009 annual report to shareholders, and vote your shares, while allowing us to conserve natural resources and reduce the costs of printing and distributing the proxy materials. On or about May 10, 2010, we will mail to our shareholders a Notice of Internet Availability of Proxy Materials, which we refer to as the Notice and Access card, containing instructions on how to access our proxy statement and our 2009 annual report to shareholders for 2009 and vote electronically via the Internet. The Notice and Access card also contains instructions as to how you can receive a paper copy of our proxy materials.

It is important that your shares be represented at the meeting and voted in accordance with your wishes. Whether or not you plan to attend the meeting, we urge you to complete a proxy as promptly as possible by Internet, telephone or mail so that your shares will be voted at the annual meeting. This will not limit your right to vote in person or to attend the meeting.

Sincerely,

/s/ Samuel Zell
Samuel Zell
Chairman of the Board

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CAPITAL TRUST, INC.
410 Park Avenue, 14th Floor
New York, New York 10022

NOTICE OF 2010 ANNUAL MEETING OF SHAREHOLDERS

To our Shareholders:

We hereby notify you that we are holding our 2010 annual meeting of shareholders at the offices of Paul, Hastings, Janofsky & Walker LLP, 75 East 55th Street, New York, New York 10022, on Thursday, June 24, 2010, at 10:00 a.m., New York City time, for the following purposes:

1. To elect eight directors to the board of directors to serve until our next annual meeting of shareholders and until such directors successors are duly elected and qualify.
2. To consider and vote upon the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2010.
3. To transact such other business as may properly come before the annual meeting or any adjournment or postponement thereof.

You can vote your shares of class A common stock if our records show that you were a shareholder as of the close of business on April 29, 2010, the record date for the annual meeting.

Shareholders, whether or not they expect to be present at the meeting, are requested to vote their shares electronically via the Internet or by telephone or by completing and returning the proxy card if you requested paper copies of our proxy materials. Voting instructions are provided in the notice regarding Internet availability of proxy materials, or, if you requested paper copies, the instructions are printed on your proxy card and included in the accompanying proxy statement. Any person giving a proxy has the power to revoke it at any time prior to the meeting and shareholders who are present at the meeting may withdraw their proxies and vote in person.

By Order of the Board of Directors,

/s/ Geoffrey G. Jervis
Geoffrey G. Jervis
Secretary

April 29, 2010

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CAPITAL TRUST, INC.
410 Park Avenue, 14th Floor
New York, New York 10022
PROXY STATEMENT
FOR
2010 ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON JUNE 24, 2010

This proxy statement is being furnished by and on behalf of our board of directors in connection with the solicitation of proxies to be voted at the 2010 annual meeting of shareholders. The date, time and place of the annual meeting are:

Date: June 24, 2010

Time: 10:00 a.m., New York City time

Place: The law offices of Paul, Hastings, Janofsky & Walker LLP, 75 East 55th Street, New York, New York 10022

At the annual meeting, shareholders will be asked to:

Elect the following nominees as our directors to serve until our next annual meeting of shareholders and until such directors successors are duly elected and qualify: Samuel Zell, Thomas E. Dobrowski, Martin L. Edelman, Edward S. Hyman, Stephen D. Plavin, Henry N. Nassau, Joshua A. Polan and Lynne B. Sagalyn (Proposal 1);

Consider and vote upon the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm, referred to herein as our independent auditors, for the fiscal year ending December 31, 2010 (Proposal 2); and

Transact such other business as may properly come before the annual meeting or any adjournment or postponement thereof.

Our principal offices are located at 410 Park Avenue, 14th Floor, New York, New York 10022 and our telephone number is (212) 655-0220.

We are furnishing the proxy materials for the 2010 annual meeting electronically using the Internet through the mailing of a notice regarding Internet availability of proxy materials to our shareholders. The notice regarding Internet availability of proxy materials furnishing this proxy statement and the enclosed proxy card and our 2009 annual report to shareholders will be first mailed to shareholders of record on or about May 10, 2010.

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GENERAL INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

In this Section of the proxy statement, we answer some common questions regarding the 2010 annual shareholders meeting and the voting of shares at the meeting.

Where and when will the annual meeting be held?

The date, time and place of the meeting are:

June 24, 2010
10:00 a.m. (New York City time)
The law offices of Paul, Hastings, Janofsky & Walker LLP
75 East 55th Street
New York, New York 10022

Why did I receive a notice in the mail regarding the Internet availability of proxy materials instead of a paper copy of proxy materials?

The United States Securities and Exchange Commission, or the SEC, has approved Notice and Access rules relating to the delivery of proxy materials over the Internet. These rules permit us to furnish proxy materials, including this proxy statement and our annual report, to our shareholders by providing access to such documents on the Internet instead of mailing printed copies. Most shareholders will not receive paper copies of the proxy materials unless they request them. Instead, the notice regarding Internet availability of proxy materials, which we refer to as the Notice and Access card, which has been mailed to our shareholders, provides instructions regarding how you may access and review all of the proxy materials on the Internet. The Notice and Access card also instructs you as to how you may submit your proxy via the Internet. If you would like to receive a paper or email copy of our proxy materials, you should follow the instructions for requesting such materials printed on the Notice and Access card.

Can I vote my shares by filling out and returning the Notice and Access card?

No. The Notice and Access card identifies the items to be voted on at the annual meeting, but you cannot vote by marking the Notice and Access card and returning it. The Notice and Access card provides instructions on how to vote via the Internet or in person at the meeting or to request a paper proxy card, which will contain instructions for voting by the Internet, by telephone or by returning a signed paper proxy card.

Why did you send me the Notice and Access card?

We sent you the Notice and Access card regarding this proxy statement because our board of directors is asking for your proxy to vote your shares at the annual meeting. We have summarized information in this proxy statement that you should consider in deciding how to vote at the annual meeting. You don t have to attend the annual meeting in order to vote your shares. Instead, you may simply vote your shares electronically via the Internet or by telephone or by completing and returning the proxy card if you requested a paper copy of our proxy materials. Voting instructions are provided on the Notice and Access card, or, if you requested a paper copy of our proxy materials, the instructions are printed on your proxy card and included in this proxy statement.

Who can vote?

You can vote your shares of class A common stock if our records show that you were the owner of the shares as of the close of business on April 29, 2010, the record date determining the shareholders who are entitled to vote at the annual meeting. As of April 29, 2010, there were a total of 21,900,941 shares of our class A common stock outstanding and entitled to vote at the annual meeting. You have one vote for each share of class A common stock that you own.

How are votes counted?

We will hold the annual meeting if shareholders representing the required quorum of shares of class A common stock entitled to vote either sign and return their paper proxy cards, vote electronically or telephonically or attend the meeting. A majority of the shares of class A common stock entitled to vote at the meeting present in person or by proxy will constitute a quorum. If you sign and return your paper proxy card or vote electronically or telephonically, your shares will be counted to determine whether we have a quorum even if you abstain or fail to vote as indicated in the proxy materials. Broker non-votes (which occur when a brokerage firm has not received voting instructions from the beneficial owner on a non-routine matter, as defined by the New York Stock Exchange, or NYSE) will also be considered present for the purpose of determining whether we have a quorum.

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Your shares may be voted on Proposal 2 if they are held in the name of a brokerage firm, even if you do not provide the brokerage firm with voting instructions. Brokerage firms have the authority under the New York Stock Exchange, or the NYSE, rules to cast votes on certain routine matters if they do not receive instructions from their customers. The ratification of the appointment of Ernst & Young LLP as our independent auditors is considered a routine matter for which brokerage firms may vote shares for which they did not receive instructions. Proposal 1, relating to the election of directors, is not considered a routine matter and therefore, if you do not provide voting instructions to your brokerage firm as described below, no vote for your shares will be cast with respect to the election of directors.

If you abstain or withhold votes, your abstention or withheld vote will not be counted as votes cast and will have no effect on the result of the vote on the election of directors and the ratification of the appointment of Ernst & Young LLP as our independent auditors. In addition, broker non-votes, which may occur with respect to the election of directors, will not be counted as votes cast and will have no effect on the result of such vote.

What is the required vote for approval?

The election of each of our nominees for director requires a plurality of the votes cast at the annual meeting and the ratification of the appointment of Ernst & Young LLP as our independent auditors requires a majority of the votes cast at the annual meeting on such matter.

How do I vote by proxy?

Follow the instructions on the Notice and Access card to vote your shares electronically via the Internet. If you requested a paper copy of our proxy materials, follow the instructions printed on the paper proxy card to vote via the Internet, by telephone or by completing and returning the paper proxy card. The individuals named and designated as proxies will vote your shares as you instruct. You have the following choices in voting electronically, by telephone or by paper proxy card:

You may vote on each proposal, in which case your shares will be voted in accordance with your choices.

- In voting on directors, you can either vote FOR all directors or withhold your vote on all or certain directors specified by you.
- You may abstain on the proposal to ratify the appointment of Ernst & Young LLP as our independent auditors, in which case no vote will be recorded.
- You may submit a signed proxy without indicating your vote on any matter, in which case the designated proxies will vote to elect all eight nominees as directors and to approve the ratification of the appointment of Ernst & Young LLP as our independent auditors for 2010.

How can I vote by telephone or over the Internet?

To vote electronically via the Internet, go to the www.proxyvote.com website and follow the instructions. Please have your Notice and Access card in hand when accessing the website, as it contains a 12-digit control number required to vote.

If you requested a paper copy of our proxy materials, in order to vote by telephone or over the Internet, you must either call the toll-free number reflected on the paper proxy card or go to the www.proxyvote.com website and follow the instructions. Please have your paper proxy card in hand when calling the toll-free number or accessing the website, as it contains a 12-digit control number required to vote.

You can vote by telephone or via the Internet at any time prior to 11:59 p.m. New York City time, June 23, 2010, the day before the annual meeting.

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What do I do if my shares are held in street name ?

If your shares are held by your brokerage firm, a bank or other nominee in street name, you will receive a Notice and Access card intended for their beneficial holders with instructions for providing to such intermediary voting instructions for your shares electronically via the Internet at the www.proxyvote.com website, utilizing the 12-digit control number printed on the card. You may also request paper copies of the proxy materials and provide voting instructions by completing and returning the enclosed voting instruction form in the addressed, postage paid envelope provided. Alternatively, if you receive paper copies, many banks and brokerage firms provide instructions for their beneficial holders to provide voting instructions via the Internet or by telephone. If your shares are held in street name and you would like to vote your shares in person at the annual meeting, you must contact your broker, bank or other nominee to obtain a legal proxy form from the record holder of your shares and present it to the inspector of election with your ballot.

What if other matters come up at the annual meeting?

The only matters we now know of that will be voted on at the annual meeting include the proposals we have described in this proxy statement: the election of eight directors and the proposal to ratify the appointment of Ernst & Young LLP as our independent auditors for 2010. If other matters are properly presented at the meeting, the proxies designated in the proxy cards will vote your shares in their discretion.

Can I change my vote after I submit my proxy?

Yes. At any time before the vote on a proposal, you can change your vote either by executing or authorizing, dating and delivering to us a new proxy via the Internet, by telephone or mail prior to the annual meeting, by giving us a written notice revoking your proxy card or by attending the annual meeting and voting your shares in person. Your attendance at the annual meeting will not, by itself, revoke a proxy previously given by you. We will honor the proxy card or authorization with the latest date.

Proxy revocation notices should be sent to Capital Trust, Inc., 410 Park Avenue, 14th Floor, New York, New York 10022, Attention: Secretary, and new paper proxy cards should be sent to Vote Processing c/o Broadridge, 51 Mercedes Way, Edgewood, New York 11717.

Can I vote in person at the annual meeting rather than by authorizing a proxy?

Although we encourage you to complete and return a paper proxy card or vote telephonically or electronically via the Internet, to ensure that your vote is counted, you can attend the annual meeting and vote your shares in person even if you have submitted a paper proxy card or voted electronically or telephonically.

Who will count the votes?

Representatives of Broadridge Financial Solutions, Inc. will count the votes and will serve as the independent inspector of election.

Who pays for this proxy solicitation?

We do. In addition to sending you these proxy materials, some of our employees may contact you by telephone, by mail or in person. None of these employees will receive any extra compensation for doing this.

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PROPOSAL 1 ELECTION OF DIRECTORS

The number of directors that comprise our entire board of directors has been fixed at eight. Craig M. Hatkoff retired as a director and the board of directors elected reduce the size of the board to eight to eliminate the vacancy created by his retirement. Eight nominees will be proposed for election as directors at the annual meeting to hold office until our next annual meeting of shareholders and until their successors are duly elected and qualify. All eight nominees currently serve on our board of directors.

All of the nominees are willing to serve as directors but, if any of them should decline or be unable to act as a director, the individuals designated in the proxy cards as proxies will exercise the discretionary authority provided to vote for the election of such substitute nominee selected by our board of directors, unless the board alternatively acts to reduce the size of the board or maintain a vacancy on the board in accordance with our bylaws. The board of directors has no reason to believe that any such nominees will be unable or unwilling to serve.

Nominees for Election as Directors

The names, ages as of April 29, 2010, and existing positions with us of the nominees, if any, are as follows:

Name	Age	Office or Position Held
Samuel Zell	68	Chairman of the Board of Directors
Thomas E. Dobrowski	66	Director
Martin L. Edelman	68	Director
Edward S. Hyman	65	Director
Stephen D. Plavin	50	Director, Chief Executive Officer and President
Henry N. Nassau	55	Director
Joshua A. Polan	62	Director
Lynne B. Sagalyn	62	Director

The name, principal occupation for the last five years, selected biographical information and the period of service as our director of each of the nominees are set forth below.

Samuel Zell has been the chairman of the board of directors since 1997. He also serves as chairman for four other companies listed on the NYSE: Equity Residential, the largest apartment real estate investment trust (REIT) in the United States; Equity Lifestyle Properties, a REIT that owns and operates manufactured home communities in 26 states; Covanta Holding Corp., an internationally recognized owner and operator of energy-from-waste and power generation projects; and Anixter International (AXE), a leading global supplier of communications and security products, wire and cable, and fasteners. Mr. Zell is also the chairman of Tribune Company, a media conglomerate. In December 2008, the Tribune Company filed for protection under Chapter 11 of the United States Bankruptcy Code. In addition, Mr. Zell is President and Chairman of Equity Group Investments, the private investment firm he founded more than 40 years ago, and he is the chairman of Equity International, a private leading investor in real estate-related businesses outside of the United States. Mr. Zell is most recognized as a founding father of today s public real estate industry and as the originator of three of the largest REITs in industry history. He served as chairman for one of those REITs, Equity Office Properties Trust, from its initial public offering in July 1997 until it was sold in the largest leveraged buyout in history in February 2007. As the current or past chairman of other REITs founded by him, we believe Mr. Zell has the leadership experience to serve as our chairman.

Thomas E. Dobrowski has been a director since 1998. Mr. Dobrowski has been retired from Promark Global Advisors (formerly known as General Motors Asset Management), an investment manager for several pension funds of General Motors, its subsidiaries and affiliates, as well as for several third party clients, since October 2005. From December 1994 until September 2005, he was the managing director of real estate and alternative investments for Promark Global Advisors. Mr. Dobrowski is a director of Equity Lifestyle Properties, Inc. and previously served as a director of Equity Office Properties Trust until its sale in 2007. Mr. Dobrowski had a long career as a senior investment officer for a major pension plan investor, and oversaw the original investment made by Promark into our business, which gives him unique insight into our investment activities.

Martin L. Edelman has been a director since 1997. Mr. Edelman has been of counsel to Paul, Hastings, Janofsky & Walker LLP, and prior thereto Battle Fowler LLP, each a law firm that has provided services to us. Mr. Edelman was

a partner with Battle Fowler LLP from 1972 to 1993. He had been a director of Cendant Corporation and a member of the executive committee of that corporation s board of directors from November 1993 until its deconsolidation in 2006. He currently serves as a director of Avis/Budget Group, Inc., a rental car company, and Ashford Hospitality Trust, a hospitality property focused REIT. Mr. Edelman has extensive commercial real estate industry experience and knowledge developed over his nearly 40 years of practicing law, which provides us with valuable perspectives into developments in our industry.

Edward S. Hyman has been a director since 2005. Mr. Hyman is chairman and president of International Strategy & Investment Group Inc. and is a director of International Strategy & Investment Inc. Prior to forming both of these companies in April 1991, he was vice chairman and a member of the board of C.J. Lawrence Inc., which he joined in 1972. Mr. Hyman is a board member of the China Institute and Said Holdings Limited as well as member of the Advisory Committee for the New York Public Library s Financial Services Leadership Forum and a member of Money Marketeers. He also serves on the finance committee of Bowdin College and Collegiate School. Mr. Hyman is a leading Wall Street economist which provides him with unique insight into economic conditions that impact our business.

Stephen D. Plavin has been a director since December 1, 2009. Mr. Plavin served as our chief operating officer since 1998, and since December 1, 2009, has served as our president and chief executive officer. Prior to joining us, Mr. Plavin was employed for fourteen years with the Chase Manhattan Bank and its securities affiliate, Chase Securities Inc. Mr. Plavin held various positions within the real estate finance unit of Chase, including the management of: loan origination and execution, loan syndications, portfolio management, banking services and real estate owned sales. He served as a managing director responsible for real estate client management for Chase s major real estate relationships and in 1997 he became co-head of global real estate for Chase. Mr. Plavin serves as a director of Omega Healthcare Investors, Inc., a skilled nursing real estate investment trust and as non-executive Chairman of WCI Communities Inc. Mr. Plavin s experience and background as a senior member of management since 1998 have provided him with valuable knowledge of and experience with our business, which we believe positions him to contribute to our board s oversight functions.

Henry N. Nassau has been a director since 2003. Mr. Nassau has been a partner since September 2003 and is chair of the corporate and securities group at the law firm Dechert LLP. Mr. Nassau was the chief operating officer of Internet Capital Group, Inc., an Internet holding company, from December 2002 until June 2003, having previously served as managing director, general counsel and secretary since May 1999. Mr. Nassau was previously a partner at Dechert LLP from September 1987 to May 1999 and was chair of the firm s business department from January 1998 to May 1999. At Dechert LLP, Mr. Nassau engages in the practice of corporate law, concentrating on mergers and acquisitions, public offerings, private equity and venture capital financing. Mr. Nassau has significant professional experience as an officer of a public company and as an attorney and partner in a major law firm which allows him to make unique contributions in the area of corporate governance.

Joshua A. Polan has been a director since 2004. Mr. Polan is a managing director of Berkley Capital, LLC, a wholly owned subsidiary of W. R. Berkley Corporation, which we refer to as WRBC. He has been an executive officer of Interlaken Capital, Inc., or Interlaken, a company substantially owned and controlled by William R. Berkley, WRBC s chairman of the board and chief executive officer, since June 1988, and currently serves as managing director of Interlaken. For more than five years prior to June 1988, Mr. Polan was a partner in the public accounting firm of Touche Ross & Co. Mr. Polan is a member of the management committee of LD Realty Advisors LLC, the general partner of LDPG Realty Investors, L.P. We believe Mr. Polan s experience in the insurance industry and the investment activities of his employer provides useful insight into our business.

Lynne B. Sagalyn has been a director since 1997. Dr. Sagalyn is the Earle W. Kazis and Benjamin Schore Professor of Real Estate at Columbia Business School where she is director of the Paul Milstein Center for Real Estate and the MBA Real Estate Program. This position marks a return to Columbia, where she had been a professor of finance and economics for more than twelve years, and to the MBA Real Estate Program, which she developed during that period. From 2004 until her return to Columbia in July 2008, Professor Sagalyn held appointments at the University of Pennsylvania in both the School of Design (City Planning Department) and the Wharton School (Real Estate Department). Dr. Sagalyn is the Vice Chairman and a director of UDR, Inc., a self-administered REIT in the apartment communities sector. Additionally, Dr. Sagalyn serves on the Advisory Board of The Goldman Family Enterprises. She has also served on the New York City Board of Education Chancellor s Commission on the Capital Plan. Through her prominent positions in graduate real estate programs of leading universities, Dr. Saglyn brings expertise in real estate and finance to our board and the audit committee, of which she is the chair.

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Vote Required; Recommendation

The election to the board of directors of each of our eight nominees will require the affirmative vote of a plurality of the votes cast at the annual meeting. Our board of directors unanimously recommends that you vote for the election of all eight nominees named above.

Board of Directors; Committees

Our board of directors has eight members and is currently comprised of Messrs. Zell, Dobrowski, Edelman, Hyman, Plavin, Nassau and Polan and Dr. Sagalyn. Our board of directors has determined that Messrs. Dobrowski, Hyman, Nassau, Polan and Zell and Dr. Sagalyn are independent under the criteria for independence set forth in the listing standards of the NYSE, and therefore, upon the election of all eight nominees, we will meet the NYSE requirement for a majority of independent directors serving on the board of directors. Our board of directors considered the following transactions, relationships and arrangements between each director or any member of his or her immediate family and the company and its subsidiaries and affiliates. Mr. Dobrowski was previously employed by the investment manager for several pension funds of General Motors Corporation, its subsidiaries and affiliates, which have invested in our private funds and which own, as of April 29, 2010, approximately 3.1% of the shares of our class A common stock, and he serves on the board of directors of another company chaired by our chairman of the board. Mr. Polan serves as a managing director of Berkley Capital, LLC, a wholly owned subsidiary of WRBC, which owns, as of April 29, 2010, approximately 17.5% of the shares of our class A common stock and whose nomination is required pursuant to a director nomination right. We also entered into three separate account advisory agreements with affiliates of WRBC under which we direct for investment, on a discretionary basis, $350 million of committed capital on behalf of WRBC in commercial real estate mortgages, mezzanine loans and participations therein. In addition, on April 27, 2007, we purchased a $20.0 million subordinated interest in a mortgage from a dealer. Proceeds from the original mortgage financing provide for the construction and leasing of an office building in Washington, D.C. that is owned by a joint venture. WRBC has a substantial economic interest in one of the joint venture partners. This loan was sold to the joint venture owner at a discount in November 2009. The Zell family has invested in our private funds and we previously made minor payments for insurance services to a subsidiary of Equity Office Properties Trust.

Our board of directors currently has four standing committees: an audit committee, a compensation committee, a corporate governance committee and an investment committee.

Audit Committee: The audit committee is currently comprised of Messrs. Dobrowski and Nassau and Dr. Sagalyn, with Dr. Sagalyn serving as the committee s chairperson. All audit committee members meet the independence criteria and have the qualifications set forth in the listing standards of the NYSE and Rule 10A-3 under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Each of Messrs. Dobrowski and Nassau is qualified as an audit committee financial expert within the meaning of Item 407(d)(ii) of Regulation S-K under the Exchange Act, and our board of directors has determined that they each have the accounting and related financial management expertise within the meaning of the listing standards of the NYSE. The SEC has determined that the audit committee financial expert designation does not impose on a person with that designation any duties, obligations or liability that are greater than the duties, obligations or liability imposed on such person as a member of the audit committee of the board of directors in the absence of such designation. The audit committee appoints our independent auditors, oversees the quality and integrity of our financial reporting and the audits of our financial statements by our independent auditors and in fulfilling its oversight function, reviews with our management and independent auditors the scope and result of the annual audit, our auditors independence and our accounting policies. The audit committee is also responsible for the overall administration of our code of business conduct and ethics, including its interpretation and amendment. Our board of directors has adopted a written charter under which the audit committee operates. This charter is posted on our corporate website at *www.capitaltrust.com*.

The audit committee has adopted procedures for the processing of complaints relating to accounting, internal control and auditing matters in accordance with Rule 10A-3 under the Exchange Act. The full text of these complaint procedures is available on our corporate website at *www.capitaltrust.com*.

Compensation Committee: The compensation committee is currently comprised of Mr. Polan and Dr. Sagalyn, with Mr. Polan serving as the committee s chairperson. All compensation committee members meet the independence criteria set forth in the listing standards of the NYSE. The compensation committee oversees the compensation of

executive officers and senior management, including plans and programs relating to cash compensation, incentive compensation, equity-based awards and other benefits and perquisites and administers any such plans or programs as required by the terms thereof.

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In particular, the compensation committee s primary duties are described in the compensation committee charter and include:

- reviewing and approving corporate goals and objectives relevant to the compensation of our chief executive officer, evaluating the performance of our chief executive officer in light of those goals and objectives, and either as a committee or together with the other independent directors (as directed by our board of directors) exercising sole authority to determine and approve our chief executive officer s compensation level based on this evaluation;
- determining the long-term incentive component, if any, of our chief executive officer s compensation by considering among other factors selected by the compensation committee, our performance and relative shareholder return, our chief executive officer s individual performance, including progress on strategic objectives, the value of similar incentive awards to chief executive officers at comparable companies, and the awards given to our chief executive officer in past years;
- considering the recommendations of our chief executive officer with respect to non-chief executive officer management and key employee compensation and determining and approving such compensation;
- reviewing and making recommendations to our board of directors with respect to incentive compensation plans and equity-based compensation plans or material changes to any such existing plans and discharging and administering any such plans as required by the terms thereof;
- overseeing the drafting and reviewing and discussing with management the compensation discussion and analysis and related disclosures required by the SEC;
- preparing and approving the compensation committee report for inclusion in our proxy statement in accordance with applicable SEC regulations;
- periodically reviewing, as and when determined appropriate, executive compensation programs and total compensation levels;
- reviewing and making recommendations to our board of directors concerning compensation arrangements for non-employee members of our board of directors and stock ownership guidelines;
- in consultation with management, overseeing regulatory compliance with respect to compensation matters, including overseeing our policies on structuring compensation programs to preserve tax deductibility, and, as and when required or desired, establishing performance goals and confirming that performance goals have been attained for purposes of Section 162(m) of the Internal Revenue Code, or the Code;
- reviewing and approving any severance or similar termination payments proposed to be made to any of our current or former executive officers; and
- performing any other duties or responsibilities expressly delegated to the compensation committee by our board of directors from time to time relating to our compensation programs.

The compensation committee shall have the resources and authority appropriate to discharge its duties and responsibilities, including the authority to retain counsel and other experts or consultants as it deems appropriate, without obtaining the approval of our board of directors or management. The compensation committee shall have the sole authority to select and retain a compensation consultant to assist in the evaluation of chief executive officer compensation.

During 2009, the compensation committee did not engage the services of any compensation consultant.

The compensation committee may, in its discretion, delegate all or a portion of its duties and responsibilities to a subcommittee of the committee. In particular, the committee may delegate the approval of certain transactions to a subcommittee consisting solely of members of the compensation committee who are (i) Non-Employee Directors for the purposes of Rule 16b-3 under the Exchange Act, as in effect from time to time, and (ii) outside directors for the purposes of Section 162(m) of the Code, as in effect from time to time.

Our board of directors has adopted a written charter under which the compensation committee operates. This charter is posted on our corporate website at *www.capitaltrust.com*.

Corporate Governance Committee: The corporate governance committee is currently comprised of Messrs. Dobrowski, Nassau and Polan, with Mr. Nassau serving as the committee s chairperson. All corporate governance committee members meet the independence criteria set forth in the listing standards of the NYSE. Among other things, the corporate governance committee identifies qualified individuals to become board members, recommends to the board individuals to be designated as nominees for election as directors at the annual meetings of shareholders, and develops and recommends to the board our corporate governance guidelines.

More specifically, the corporate governance committee is responsible for reviewing, on an annual basis, the requisite skills and characteristics of individual members of the board of directors, as well as the composition of the board as a whole, in the context of our needs. The corporate governance committee will review all nominees for director, including those recommended by shareholders, in accordance with requirements and qualifications set forth in our corporate governance guidelines and will recommend that the board select those nominees whose attributes it believes would be most beneficial to us. This review involves an assessment of the personal qualities and characteristics, accomplishments and business reputation. The corporate governance committee will assess candidates qualifications based on the following minimum criteria, which may be modified from time to time by the corporate governance committee:

- demonstrated personal integrity and moral character;
- willingness to apply sound and independent business judgment for the long-term interests of shareholders;
- relevant business or professional experience, technical expertise or specialized skills;
- personality traits and background that appear to fit with those of the other directors to produce a collegial and cooperative board responsive to the company s needs; and
- ability to commit sufficient time to effectively carry out the substantial duties of a director.

While our corporate governance guidelines do not include an express diversity policy, we note that Dr. Sagalyn has been one of our longest standing directors and other women have served on our board during our corporate history, which we believe establishes a record of gender diversity.

Our board of directors has adopted a written charter under which the corporate governance committee operates. This charter is posted on our corporate website at *www.capitaltrust.com*. A copy of our corporate governance committee charter is available free of charge, upon request directed to Investor Relations, Capital Trust, Inc., 410 Park Avenue, 14th Floor, New York, New York 10022.

Investment Committee: The investment committee is currently comprised of Messrs. Zell and Nassau. The investment committee exercises the authority of the board to approve additions to or modifications of our portfolio of loans and investments beyond the limits of the authority delegated to management in our loan policy.

Meetings: Our board of directors conducts its business through meetings of the board, actions taken by written consent in lieu of meetings and by the actions of its committees. During fiscal year 2009, our board of directors held 10 meetings. During fiscal year 2009: (i) the audit committee held six meetings, (ii) the compensation committee held three meetings and took one action by written consent, (iii) the corporate governance committee held one meeting and (iv) the investment committee did not hold any formal committee meetings, but rather discussed matters informally. During fiscal year 2009, each director attended at least 50% of all meetings of the board of directors and at least 75% of all meetings of committees on which he or she served.

Executive Sessions: Executive sessions of non-management directors are periodically held in connection with regularly scheduled meetings of the board. Our corporate governance guidelines provide that, at their discretion, the non-management directors may designate the director who will preside at each executive session of the board, or if no director has been designated, the chairperson of the corporate governance committee shall serve as such presiding director. No director has been designated to preside at all executive sessions and therefore Henry N. Nassau, chairman of our governance committee, presides at executive sessions of the board. Shareholders or interested parties may submit communications addressed to the board of directors or the non-management directors to our secretary in accordance with our shareholder nominations and communications policy.

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Board Leadership Structure and Role in Risk Oversight:. We have separated the positions of chairman of the board and chief executive officer since our business was founded in 1997. Mr. Samuel Zell currently serves as chairman of the board and Mr. Stephen D. Plavin currently serves as our chief executive officer and is a member of the board. We believe that this leadership structure is appropriate since it allows our chief executive officer to focus on the management of our day-to-day operations, while allowing the chairman of the board to lead the board in the performance of its oversight role in our governance.

As with every business, we confront and must manage various risks and our success in risk management can impact our ultimate success. We face a number of risks, including financial and economic related risks related to the performance of our portfolio and how our investments have been financed. Our senior management is responsible for the day-to-day management of risks we face, while our board of directors, as a whole and through its committees, has responsibility for the oversight of our risk management. Our board has the responsibility to satisfy itself that the risk management processes designed by management are adequate and functioning as designed. Our loan policy, as approved by the board, contains procedures designed to mitigate the risks that arise in connection with our investment activities. The board has fostered a culture of transparent and open communications with senior management, a critical condition for effective risk management and oversight. Senior management regularly report to the board on conditions in the business and the portfolio and address any questions or concerns raised by the board on risk management-related and any other matters. While our board of directors is ultimately responsible for risk oversight, our four board committees assist the board in fulfilling its oversight responsibilities in certain areas of risk. The audit committee assists the board in fulfilling its oversight responsibilities with respect to risk management in the areas of financial reporting, internal controls and compliance with legal and regulatory requirements, and, in accordance with NYSE requirements, discusses policies with respect to risk assessment and risk management. The compensation and the corporate governance committee assist the board in fulfilling its oversight responsibilities with respect to the management of risks arising from our compensation policies and programs and risks associated with board organization, membership and structure, succession planning, and corporate governance. The investment committee exercises the authority of the board to approve additions to or modifications of our portfolio of loans and investments beyond the limits of the authority delegated to management in our loan policy.

Corporate Governance

Code of Business Conduct and Ethics: We have adopted a code of business conduct and ethics that applies to all of our directors and employees, including our principal executive officer, principal financial officer and principal accounting officer. This code of business conduct and ethics is designed to comply with SEC regulations and NYSE listing standards related to codes of conduct and ethics and is posted on our corporate website at *www.capitaltrust.com*. A copy of our code of business conduct and ethics is available free of charge, upon request directed to Investor Relations, Capital Trust, Inc., 410 Park Avenue, 14th Floor, New York, New York 10022.

Corporate Governance Guidelines: We have also adopted corporate governance guidelines to advance the functioning of our board of directors and its committees and to set forth our board of directors expectations as to how it should perform its functions. Our corporate governance guidelines are posted on our corporate website at *www.capitaltrust.com*. A copy of our corporate governance guidelines is available free of charge, upon request directed to Investor Relations, Capital Trust, Inc., 410 Park Avenue, 14th Floor, New York, New York 10022.

Shareholder Nominations and Communications Policy: Our board of directors has adopted policies with respect to the consideration of candidates recommended by shareholders for election as directors and shareholder and interested party communications with the board of directors.

Shareholders may recommend director nominees for consideration by the corporate governance committee by submitting the names and the following supporting information to our secretary at: Secretary, Shareholder Nominations, Capital Trust, Inc., 410 Park Avenue, 14th Floor, New York, New York 10022. The submissions should include a current resume and curriculum vitae of the candidate and a statement describing the candidate s qualifications and contact information for personal and professional references. The submission should also include the name and address of the shareholder who is submitting the nominee, the number of shares which are owned of record or beneficially by the submitting shareholder and a description of all arrangements or understandings between the submitting shareholder and the candidate.

Shareholders and other interested parties may communicate directly with our board of directors or the non-management directors. All communications should be in writing and should be directed to our secretary at: Secretary, Shareholder Communications, Capital Trust, Inc., 410 Park Avenue, 14th Floor, New York, New York 10022. The sender should indicate in the address whether it is intended for the entire board of directors, the non-management directors as a group or an individual director. Each communication intended for the board of directors or non-management directors received by the secretary will be forwarded to the intended recipients in accordance with the existing instructions.

The full text of the shareholder nominations and communications policy is available on our corporate website at *www.capitaltrust.com*.

Director Attendance at Annual Meeting of Shareholders: We do not have a formal policy regarding attendance by directors at our annual meeting of shareholders but invite and encourage all directors to attend. We make every effort to Schedule our annual meeting of shareholders at a time and date to permit attendance by directors, taking into account the directors schedules and the timing requirements of applicable law. At our last annual meeting, which was held on June 24, 2009, one director attended.

Compensation Committee Interlocks and Insider Participation

During 2009, the compensation committee of the board of directors was comprised of Mr. Polan and Dr. Sagalyn. None of the committee s members was employed by us as an officer or employee during 2009. No committee member had any interlocking relationships requiring disclosure under applicable rules and regulations.

For a description of certain relationships and transactions with members of the board of directors or their affiliates, see Transactions With Related Persons, Promoters and Certain Control Persons beginning on page 25.

Executive and Senior Officers

The following sets forth the positions, ages as of April 29, 2010 and selected biographical information for our executive and senior officers who are not directors.

Geoffrey G. Jervis, age 38, has served as our chief financial officer since 2005. Prior to that time, he served as our director of capital markets since 2004. He has been employed by us in various positions since 1999. Prior to joining us, Mr. Jervis was the chief of staff to the New York City Economic Development Corporation under the Giuliani Administration.

Thomas C. Ruffing, age 49, has served as chief credit officer and head of asset management since July 2006. Mr. Ruffing is responsible for the credit underwriting and asset management of all of our investment portfolios. Prior to that time, he served as our head of asset management since 2001. Prior to joining us in 2001, Mr. Ruffing was employed by JPMorgan Chase serving in its real estate finance and investment banking group since 1990.

Jai Agarwal, age 35, has served as director of finance and accounting since October 2008. Prior to joining Capital Trust, he was employed at various positions in accounting and finance at iStar Financial Inc., a publicly traded real estate investment trust, from August 2000 through December 2007. Mr. Agarwal is a certified public accountant.

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COMPENSATION COMMITTEE REPORT*

Our compensation committee has reviewed the Compensation Discussion & Analysis with management and, based on that review, recommends to the board of directors that it be included in our proxy statement which is incorporated by reference in our annual report on Form 10-K.

Compensation Committee
Joshua A. Polan
Lynne B. Sagalyn

* The material in this report is not solicitation material, is not deemed filed with the Securities and Exchange Commission, and is not incorporated by reference in any filing of the company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any filing.

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COMPENSATION DISCUSSION AND ANALYSIS

I. Administration of Compensation Programs

Our compensation committee oversees our compensation programs. As described in greater detail above, our compensation committee is responsible for reviewing and approving corporate goals and objectives relevant to the compensation of our employees. In particular, the compensation committee is responsible for evaluating the performance of our chief executive officer in light of preset goals and objectives, and determining and approving the chief executive officer s compensation level based on this evaluation. The compensation committee is also responsible for reviewing and approving the salaries and other compensation of our named executive officers, which we refer to as NEOs. Our NEOs for 2009 include Stephen D. Plavin, our chief executive officer, or CEO, Geoffrey G. Jervis, our chief financial officer, or CFO, Thomas C. Ruffing, our chief credit officer, or CCO and John R. Klopp, our former chief executive officer, or former CEO.

II. Compensation Philosophy and Program Objectives

Our objective is to provide compensation packages that attract, retain and motivate experienced and qualified executives, reward individual performance, align the interests of our NEOs with those of our shareholders and provide incentives for the creation of shareholder value. Our executive compensation program consists of three main elements: an annual base salary, annual cash bonus compensation and long-term incentive compensation. The Company has designed the bonus and long-term compensation elements of our NEO compensation program to link individual compensation to the achievement of objective performance measures relating to key business goals that drive our financial performance.

In March of 2009, we entered into a series of agreements with certain of our lenders that we refer to as the March 2009 Restructuring. Under the terms of the March 2009 Restructuring, annual cash compensation for our employees, other than our CEO, COO and CFO, was capped at $5.8 million (approximately the level of compensation for this group of employees in 2008). Our CEO, COO and CFO base salaries were set at then existing levels and any bonus compensation to be paid requires the approval of not only our board of directors, but also representatives from certain of our lenders. Until these restrictions are eliminated, our compensation committee s discretion is subject to satisfaction of these limitations.

We believe that the compensation provided to our executives should be commensurate with the performance of the company and must recognize the competitive environment for talented executives in which we operate. We compete for talent with other public and private commercial mortgage finance platforms as well as the commercial mortgage backed securities (CMBS) and structured finance groups within Wall Street commercial banks and investment banking firms. The overall principle guiding our NEO compensation is to pay total compensation that encourages outstanding performance and is in line with the competitive market. The actual compensation paid to each NEO will vary based on company and individual performance and the NEO s role within the company. Starting with our former CEO in 2004, in response to the competitive environment, we began to enter into employment agreements with our NEOs and as of the end of 2006 all four NEOs were employed under employment agreements that, among other things, specify their salary, bonus and long-term incentive compensation. The employment agreements with Messrs. Plavin and Ruffing expired on December 31, 2009 and December 31, 2008, respectively. Our employment agreement with Mr. Jervis expires on December 31, 2010. Our employment agreement with our former CEO, John R. Klopp, expired on December 31, 2008. Going forward, the compensation committee will evaluate the need for employment agreements in light of not only the factors traditionally considered by the committee, but also the limitations imposed under our March 2009 Restructuring and other corporate developments.

III. Procedural Approach

Role of the Board of Directors and Compensation Committee

Consistent with our philosophy, bonus and long-term compensation elements of our compensation program are designed to be commensurate with the performance of the company. Our board of directors has endorsed strategic business goals for our company that are centered on managing the balance sheet and investment management segments of our business. Our compensation committee in consultation with our CEO considers these strategic business goals along with individual and company performance in determining bonuses to our NEOs. Given conditions in our business and developments culminating in the March 2009 Restructuring, the compensation committee did not make performance based awards as it had in the past. The committee will revisit awarding performance based incentive awards as conditions in our business stabilize. Our CEO attends compensation committee meetings, but does not attend executive sessions. Our CEO makes recommendations to the compensation committee regarding the compensation of other NEOs, but does not vote on matters presented for approval or action by the compensation committee.

The compensation committee previously engaged the services of a compensation consultant, FPL Associates Compensation, a division of FPL Associates L.P. (FPL), at the time we entered into the employment agreements with our NEOs and determined that these agreements were at market. FPL has no other relationships with the company and is considered an independent third party advisor. FPL did not provide any official compensation consulting services in 2009.

Our compensation committee held meetings or acted through written consent four times during the year ended December 31, 2009.

IV. Compensation Structure

A. Overview of Elements of Pay

In 2009, we utilized two main elements of compensation for our NEOs:

- Annual Base Salary Fixed salary as set forth in the executives employment agreements, subject to increase from time to time at the discretion of the board of directors; and
- Annual Cash Bonus Variable pay in the form of cash bonuses that is designed to reward executives for the attainment of annual business goals.

For 2007 and 2008, our NEOs received long-term incentive compensation in the form of (i) restricted and performance stock awards and/or (ii) cash based performance awards with payouts based on our receipt of incentive management fees from third party investment management vehicles we manage. Our former CEO Mr. Klopp received awards of restricted stock (as described below) in 2009 pursuant to his employment agreement. None of our other NEOs received discretionary awards of restricted stock in 2009 given the conditions in our business.

B. Detail of Elements of Pay

(1) Base Salary

The NEOs receive an annual base salary, subject to possible increases by the board of directors, and, as applicable, pursuant to their employment agreement. The annual salaries vary according to the compensation committee s discretionary assessment of the levels of responsibility undertaken by the executive officers. We strive to compensate our NEOs with salaries commensurate with prevailing compensation practices in public and private commercial mortgage finance platforms as well as the CMBS and structured finance groups within Wall Street commercial banks and investment banking firms. The compensation committee periodically may review base salaries for our named executive officers on its own initiative or at the recommendation of our CEO. In addition, under the terms of our March 2009 Restructuring, the salaries of our CEO, COO and CFO were set at then existing levels and changes to these salaries are subject to the approval of certain of our lenders. Mr. Klopp served as our chief executive officer and president until November 30, 2009, his last date of employment with us. Pursuant to an employment agreement dated February 24, 2004, that expired on December 31, 2008, Mr. Klopp s annual base salary for 2009 was $600,000. He was paid $550,000 in base salary during his employment in 2009.

Stephen D. Plavin served as our chief operating officer through November 30, 2009 and subsequent to Mr. Klopp s departure, he has served as our chief executive officer and president. Mr. Plavin s employment agreement, entered into as of December 28, 2005, expired on December 31, 2009. Under the employment agreement, Mr. Plavin received a

base salary at an annual rate of $450,000 for the remainder of calendar year 2005 and, as of January 1, 2006, Mr. Plavin s base salary was increased to $500,000 per year, subject to possible increase at the discretion of our board of directors and approval by our lenders. The board increased Mr. Plavin s base salary to $550,000 effective January 1, 2010. While the board has authorized the increase in Mr. Plavin s salary, given the terms of the March 2009 Restructuring, approval of certain of our lenders is required, which has not yet been received.

Geoffrey G. Jervis serves as our chief financial officer pursuant to an employment agreement entered into as of September 29, 2006. The employment agreement provides for Mr. Jervis employment through December 31, 2009, subject to our option to extend through December 31, 2010 (which we exercised in 2009). Under the employment agreement, Mr. Jervis received a base salary of $350,000 until January 1, 2010, increasing to $425,000 in the extension year. The board further increased Mr. Jervis base salary to $450,000 effective January 1, 2010. While the board has authorized a further increase in Mr. Jervis salary to $450,000, given the terms of the March 2009 Restructuring, approval of certain of our lenders is required, which has not yet been received.

Thomas C. Ruffing serves as our chief credit officer and head of asset management. He was employed in 2008 pursuant to an employment agreement entered into as of August 4, 2006. The employment agreement provided for Mr. Ruffing s employment through December 31, 2008. The employment agreement entitled Mr. Ruffing to a base salary of $250,000 per year, subject to possible increase at the discretion of our board of directors. Mr. Ruffing s base salary has remained at $250,000.

(2) Annual Cash Bonus

Under the terms of the March 2009 Restructuring, approval of certain of our lenders is required to pay cash bonuses to our CEO, COO and CFO. Because of this and general conditions in our business, our compensation committee did not award cash bonuses in 2009 by reference to performance based financial criteria (as had occurred in recent years). Instead, all bonuses for NEO services in 2009 were determined in the sole discretion of the compensation committee and in certain cases, subject to approval by our lenders. Our NEOs did not generally participate in any way in the bonus determination process, although Mr. Ruffing received an annual cash bonus for 2009 of $300,000, which was recommended by our CEO and approved by the compensation committee.

(3) Long-Term Incentive Compensation

Mr. Plavin and Mr. Jervis respective employment agreements contain an option for us to extend the terms of the agreements by one year through December 31, 2009 and December 31, 2010, respectively. In the event the options are exercised by us, Mr. Plavin and Mr. Jervis are entitled to grants of 30,000 and 16,875 shares of restricted stock, respectively. We extended Mr. Plavin s agreement through December 31, 2009 and awarded him 30,000 shares of restricted (50%) and performance (50%) stock (valued at $108,000 based on the closing price on December 31, 2008). In accordance with his employment agreement, the restricted stock vested on December 31, 2009 and the performance stock was forfeited on December 31, 2009, as the conditions for vesting were not met. In connection with the extension of Mr. Jervis employment agreement, we awarded him 16,875 shares of restricted stock (50%) and performance (50%) stock (valued at $21,431 based on the closing price on December 31, 2009).

Pursuant to his employment agreement, for 2008, Mr. Klopp was eligible to earn shares of restricted and performance stock, subject to future vesting, tied to the achievement of threshold, target or maximum performance levels set for performance measures selected by the compensation committee. In each year of his contract commencing on and after January 1, 2005, Mr. Klopp was eligible to earn shares of restricted and performance stock with a value ranging from $250,000 at threshold performance to $750,000 at maximum performance, with a target of $500,000 at target performance. The performance measures and weights assigned are the same as set for his annual cash bonus opportunity as described above. In January 2009, the compensation committee reviewed and confirmed the level of performance achieved with respect to the selected performance measures, and, as a result, Mr. Klopp earned an award of 163,192 shares of restricted (50%) and performance (50%) stock (valued at $530,370 based on the average closing price for January 2009). In accordance with his employment agreement, the restricted stock will vest in twelve equal quarterly installments over the three year period commencing on January 1, 2009 and ending on December 31, 2011 and the performance stock will vest on December 31, 2012 provided that the total shareholder return from January 1, 2009 through December 31, 2012 is at least 13% per annum. Mr. Ruffing was not awarded any shares of restricted stock after the expiration of his employment agreement on December 31, 2008.

Furthermore, no cash based performance awards relating to incentive management fees from our third party investment management business were awarded to NEOs in 2009.

On April 26, 2007, the board of directors adopted the 2007 long-term incentive plan, or 2007 Plan, effective upon shareholder approval which occurred on June 7, 2007. The 2007 Plan includes shares available for issuance under our previous long-term incentive plan and constitutes the sole long-term incentive plan that governs all aspects of the

company s long-term incentive compensation.

Since 2007, certain NEOs elected to defer receipt of certain restricted stock awards that would otherwise become payable to them after 2007 and upon the satisfaction of vesting periods set forth in their individual award agreements. An award subject to a deferral election will continue to vest at the end of the vesting period pursuant to its original terms, but will not be distributed to the executive until the occurrence of the applicable distribution event set forth in the deferral election. Distribution events may include: death, disability, or other separation from service; change in control of the company; and a specified date elected by the executive.

(4) Stock Option Awards

We made no grants of stock options to our named executive officers in 2009. All outstanding stock options have vested, having been granted prior to our election to be taxed as a REIT in 2003, after which we determined to use restricted and performance stock as the principal form of equity based long-term incentive compensation awarded to NEOs.

(5) Retirement, Perquisites and Other Personal Benefits

We do not maintain any defined benefit or supplemental executive retirement programs for NEOs. We do, however, maintain a 401(k) plan and we contribute 3% of compensation, subject to the stipulated annual maximum amount, towards deferred benefits.

During the calendar year 2009, Mr. Klopp received the services of a driver employed by the company.

Mr. Plavin is entitled to have his premiums paid for life insurance.

B. Interrelationship of Elements of Pay

In determining the overall mix of elements comprising total compensation, the compensation committee focused in 2009 on providing our NEOs with their base salaries supplemented by discretionary cash bonuses at levels that reflected our compensation committee s assessment of both their performance, general conditions in our business and the limitations imposed by our March 2009 Restructuring. In the past, we also awarded significant levels of long-term incentive compensation, but this did not occur in 2009 (other than as required under employment agreements).

C. Pay Levels and Benchmarking

Our compensation committee set pay levels and made awards in 2009 on a discretionary basis, without reference to any benchmarking data. This reflected the committee s general determination to honor obligations under outstanding employment agreements and to otherwise limit the compensation of our NEOs to discretionary cash bonuses based on the committee s subjective assessment of each NEO s performance and our prevailing financial circumstances.

V. Timing of Equity Grants

As explained above, no stock options were granted to any of our NEOs during 2009, and other equity awards occurred only when required under the terms of our employment agreements with Messrs. Klopp, Plavin, and Jervis. These and all other equity based awards to our NEOs are awarded under our 2007 Plan. As administrator, the compensation committee is authorized in its discretion to grant awards under the plans, establish the terms of such awards, including vesting terms, prescribe grant agreements evidencing such awards and establish programs for granting awards. The compensation committee has not delegated its authority to make awards or prescribe the terms (including vesting terms) to our management, and we do not have any plans, policies or practices to time the grant of equity awards to our executive officers in coordination with the release of material non-public information. Grants of other equity-based awards are determined by the compensation committee and typically are made in January or February of each calendar year after a review of the company s and individuals performance during the prior year. We do not follow a set schedule for making equity grants under our plans and grants may also occur at other times of the year upon execution of a new employment agreement or at the time of new hire.

Awards of restricted and performance stock to existing employees are denominated in a dollar value and the number of shares awarded is currently determined using a 30-day average price except that in the case of new hires, the number of shares awarded is determined using the employee s start date for determining the base price. Approvals of equity based awards are typically obtained at meetings of the compensation committee, but management may also seek approvals by unanimous written consent of the committee members.

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VI. Stock Ownership Guidelines

As disclosed under the caption Security Ownership of Certain Beneficial Owners and Management below, our named executive officers are shareholders of the company. We do not currently have stock ownership guidelines for our named executive officers.

VII. Adjustment or Recoupment of Awards

The 2007 Plan contains a forfeiture or clawback mechanism to recoup awards from a NEO to the extent any of our financial results are misstated as a result of the NEO s willful misconduct or gross negligence and the financial results are restated downward. In addition, Section 304 of Sarbanes-Oxley provides an ability to recover incentive awards in certain circumstances. Under this law, if we are required to restate our financials due to noncompliance with any financial reporting requirements as a result of misconduct, the chief executive officer and chief financial officer must reimburse us for (1) any bonus or other incentive- or equity-based compensation received during the 12 months following the first public issuance of the non-complying document, and (2) any profits realized from the sale of our securities during those 12 months.

VIII. Post-Employment Severance and Change-in-Control Benefits

Effective December 1, 2009, Mr. Klopp retired as our chief executive officer. In conjunction with his departure, Mr. Klopp was retained as a consultant to the company through November 30, 2010, for which he will be paid $83,333 per month over the twelve-month term as well as a cash bonus of $600,000. In addition, he was entitled to (i) employer-paid health insurance through the earlier of (a) November 30, 2010 and (b) the date on with he becomes eligible for comparable coverage from another employer, (ii) future vesting of 44,322 shares of restricted stock in accordance with the original vesting schedule and (iii) exercise any unvested stock options prior to December 1, 2010.

In 2009, our employment agreement with Mr. Plavin expired, thereby resulting in his loss of the right conferred in the employment agreement to cash severance, employer-paid health insurance, and accelerated vesting upon their termination of employment. Nevertheless, the following table reports severance amounts as being payable to Mr. Plavin, because he would have been entitled to severance under his agreement had his employment terminated on December 31, 2009. Mr. Jervis has an employment agreement that provides for severance payments and other benefits, including following a change in control that results in a loss of employment or a significant change in employment. Pursuant to their employment agreements, employment terminates upon the executive officer s death, we may terminate his employment upon disability that has incapacitated him for 180 consecutive days, or for conduct defined as cause in the employment agreement or for reasons other than for cause, and each of them may terminate his employment agreement for good reason as defined in the agreement, which includes the assignment of materially inconsistent duties, responsibilities and title and change in control, or without good reason. Mr. Ruffing s employment agreement expired in 2008.

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The table below reflects the amount of compensation payable to each of our named executive officers in the event the executive s employment is terminated on specified grounds. The amounts shown assume that such termination was effective as of December 31, 2009, and thus include amounts earned through such date and are estimates of the amounts which would be paid out to the executives upon their termination. The actual amounts to be paid out can only be determined at the time of such executive s separation from the company.

Name and Termination Event	Cash Severance Payment	Continuation of Employer Paid Health Insurance	Acceleration of Stock Awards (1)	Acceleration of Management Fee Performance Compensation Awards	Total Termination Benefits
Stephen D. Plavin					
Termination For Cause/Resignation Without Good Reason	(2)				
Disability	1,000,000(3)	22,202(4)		19,000(5)	1,041,202
Termination Other Than For Cause or Disability/Resignation With Good Reason (11)	2,250,000(6)	33,303(7)		19,000(8)	2,302,303
Death	681,575(9)	22,202(4)		19,000(5)	722,777
Geoffrey G. Jervis					
Termination For Cause/Resignation Without Good Reason	(2)				
Disability	700,000(3)	22,202(4)		6,460(5)	728,662
Termination Other Than For Cause or Disability/Resignation With Good Reason (11)	1,050,000(10)	33,303(7)		6,460(8)	1,089,763
Death	503,178(9)	22,202(4)		6,460(5)	531,840
Thomas C. Ruffing					
Termination For Cause/Resignation Without Good Reason					
Disability				12,160(5)	12,160
Termination Other Than For Cause or Disability/Resignation With Good Reason (11)				12,160(8)	12,160
Death				12,160(5)	12,160

(1) Messrs. Jervis, Plavin and Ruffing did not have any unvested stock awards as of December 31, 2009.

(2) Excludes unpaid base salary and payment for accrued vacation days.

(3) Includes continuation of base salary until disability insurance payments begin (assumes disability payments begin immediately) and pro rata payment of bonus (at a rate of 1.5 times base salary).

(4) Includes twelve months payment of health insurance benefits.

(5) One year of continued vesting and forfeiture of all awards that vest after the end of the one-year period. For CT Mezzanine Partners III, Inc., or Fund III, assumes $217,143 of total payments are made during the one-year period (100% of the remaining estimated payments as of December 31, 2009).

(6) Equals 1.5 times the sum of annual base salary ($500,000) on December 31, 2009 and highest annual bonus paid in each of the last three fiscal years ($1,000,000).

(7) Includes eighteen months payment of health insurance benefits.

(8) Vesting of all outstanding unvested awards. Assumes total payments received from Fund III are $217,143.

(9) Includes payment of accrued but unpaid bonus.

(10) Equals the sum of annual base salary ($350,000) on December 31, 2009 and highest annual bonus paid in each of the last three fiscal years ($700,000).

(11) Good Reason includes, among

other things, certain change of control scenarios. For a full definition, please see each officer s respective employment agreement which is filed with the SEC.

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IX. Impact of Tax and Accounting

Section 162(m) of the Code limits the deductibility in our tax return of compensation over $1 million to any of our executive officers unless, in general, the compensation is paid pursuant to a plan which is performance-related, non-discretionary and has been approved by our shareholders. The compensation committee s policy with respect to Section 162(m) is to make reasonable efforts to ensure that compensation is deductible to the extent permitted, while simultaneously providing our executives with appropriate rewards for their performance and therefore the compensation committee may authorize the payment of compensation to NEOs outside the limits of Section 162(m).

X. Post 2009 Changes

No changes to the employment agreement for Mr. Jervis have been made subsequent to December 31, 2009. Compensation actions for our NEOs are limited to those described in sections above.

Pursuant to his employment agreement, Mr. Jervis received an annual base salary of $350,000 for the calendar years 2008 and 2009 and is entitled to an annual base salary of $425,000 for calendar year 2010. In December 2009, the compensation committee of our board of directors approved an increased annual base salary effective January 1, 2010 to Messrs. Plavin and Jervis of $550,000 and $450,000, respectively. These increases are contingent on approval of certain of our lenders, and we plan to seek their approval in 2010. Upon receipt of approval, these base salary increases will be effective on a retroactive basis from January 1, 2010. In addition, in accordance with the terms of his employment agreement, on January 1, 2009, Mr. Jervis was awarded 16,875 shares of restricted and performance stock.

XI. Conclusion

The compensation committee believes that the total compensation paid to each of our NEOs complies with the restrictions placed by our lenders and is competitive and appropriate given the performance of the NEO in light of the market conditions as well as the challenges we face in our business.

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EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth for the year indicated the annual compensation of our chief executive officer, our chief financial officer and our other named executive officers, as such term is defined in Item 402(a) of Regulation S-K. The annual bonus opportunity for Messrs. Klopp, Jervis and Plavin are provided pursuant to performance awards and consequently are reported in the Non-Equity Incentive Plan Compensation column.

Name and Principal Position	Year	Salary $	Bonus $ (1)	Stock Awards $ (2)	Non-Equity Incentive Plan Compensation $ (3)	All Other Compensation $ (4)	Total $
Stephen D. Plavin	2009	500,000	681,575	108,000		9,635	1,299,210
Chief Executive Officer	2008	500,000			681,575	9,185	1,190,760
	2007	500,000			1,561,789	9,035	2,070,824
Geoffrey G. Jervis	2009	350,000	503,178			7,350	860,528
Chief Financial Officer	2008	350,000			503,178	6,900	860,078
	2007	350,000			891,008	6,750	1,247,758
Thomas C. Ruffing	2009	250,000	300,000			7,350	557,350
Chief Credit Officer and	2008	250,000	300,000			6,900	556,900
Head of Asset Management	2007	250,000	350,000		359,545	6,750	966,295
John R. Klopp	2009	550,000	600,000	435,723		1,200,671	2,786,393
Former Chief Executive Officer	2008	600,000		750,000	840,240	72,802	2,263,042
	2007	600,000		767,213	1,874,747	76,561	3,318,521

(1) Mr. Plavin, Mr. Jervis and Mr. Ruffing were paid $681,575, $503,178 and $300,000 in discretionary annual cash bonuses, respectively, for their performance in 2009. For 2009, Mr. Klopp received a $600,000 bonus payment in accordance with his separation and consulting

agreement. For 2008 and 2007, pursuant to their employment agreements, Mr. Klopp, Mr. Plavin, and Mr. Jervis received annual cash bonuses pursuant to performance awards under our long term incentive plan. Consequently, their annual cash bonuses are presented in the chart above in the column entitled Non-equity Incentive Plan Compensation and are described in (3) below. Mr. Ruffing was paid a $250,000 cash bonus pursuant to the minimum amount stipulated in his employment agreement and Mr. Ruffing also received an additional $50,000 and $100,000 discretionary cash bonus for his performance in each of 2008 and 2007, respectively.

(2) Represents the aggregate grant

date fair value of restricted stock granted in each respective year, calculated under the Financial Accounting Standard Board s Accounting Codification Topic 718 (formerly Statement of Financial Accounting Standards 123 (R)) (ASC Topic 718). Under ASC Topic 718, the grant date fair value is calculated using the closing market price of our common stock on the date of grant, which is then recognized over the service period of the award.

(3) Pursuant to their employment agreements, Mr. Klopp, Mr. Plavin and Mr. Jervis received performance awards that provide for cash payments intended as an annual bonus, based upon the achievement by the company of

certain quantitative performance hurdles. For performance year 2008 (paid in 2009), these amounts were $681,575, $503,178 and $840,240 for Mr. Plavin, Mr. Jervis and Mr. Klopp, respectively. For performance year 2007 (paid in 2008), these amounts were $1,000,000, $700,000 and $1,200,000 for Mr. Plavin, Mr. Jervis and Mr. Klopp, respectively. The amounts reported also include amounts received by named executive officers pursuant to previously granted performance awards representing derivative interests in incentive management fees received by us in 2007 from one of our third party investment management vehicles, CT Mezzanine Partners III, Inc.

In 2009 and 2008 Mr. Plavin, Mr. Jervis, Mr. Ruffing and Mr. Klopp did not receive any such payments. In 2007, Mr. Plavin, Mr. Jervis, Mr. Ruffing and Mr. Klopp received $561,789, $191,008, $359,545 and $674,147, respectively, of such payments.

(4) In 2009 the company provided a 401(k) matching contribution in the amount of $7,350 to all named executive officers. Mr. Plavin, pursuant to his employment agreement, was reimbursed for life insurance premiums ($2,285). Mr. Klopp was provided the services of a driver ($47,667) and pursuant to his employment agreement, was reimbursed for life insurance premiums ($63,595) related to fiscal

years 2005 through 2008. In addition, pursuant to Mr. Klopp s separation and consulting agreement effective December 1, 2009, Mr. Klopp will receive a consulting fee ($1,000,000), employer-paid health insurance ($5,186), certain shares of restricted stock (valued at $54,073 based on the closing market price of our common stock on November 30, 2009) and be entitled to incentive compensation from Fund III assumed to be $22,800 on December 31, 2009. In 2008 the company provided a 401(k) matching contribution in the amount of $6,900 to all named executive officers. In addition, pursuant to his employment agreement, Mr. Klopp was reimbursed for

the expense of a leased car ($15,902) and was provided the services of a driver ($50,000). Mr. Plavin, pursuant to his employment agreement, was reimbursed for life insurance premiums ($2,285). In 2007 the company provided a 401(k) matching contribution in the amount of $6,750 to all named executive officers. In addition, pursuant to his employment agreement, Mr. Klopp was reimbursed for the expense of a leased car ($19,811) and was provided the services of a driver ($50,000). Mr. Plavin, pursuant to his employment agreement, was reimbursed for life insurance premiums ($2,285).

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Grants of Plan-Based Awards

The following table provides information on performance awards made pursuant to our long-term incentive plans that provide for awards of restricted stock and performance stock granted in 2009 to each named executive officer. There can be no assurance that the grant date fair value of stock and stock option awards will ever be realized.

		Estimated future payouts under equity incentive plan awards(1)			All other stock awards: number of shares of stock or units	Grant Date fair value of stock awards
Name	**Grant Date**	**Threshold ($)**	**Target ($)**	**Maximum ($)**	**(#)**	**($)**
Stephen D. Plavin						
Geoffrey G. Jervis						
Thomas C. Ruffing						
John R. Klopp	1/31/2009	250,000	500,000	750,000	163,192(1)	435,723(1)

(1) Pursuant to his employment agreement, Mr. Klopp was entitled to receive annually a performance award that provides an annual right to earn awards of restricted and performance stock based upon the achievement by the company of certain quantitative performance levels set for certain selected performance measures. The dollar values of these performance awards range from $250,000 to $750,000

with a target of $500,000. With respect to his performance award granted in March 2008, upon confirmation of the performance levels achieved for 2008, Mr. Klopp earned an award of 163,192 shares of restricted and performance stock (valued at $435,723 based upon a $2.67 average share price on January 31, 2009), which was awarded in January 2009. This stock award earned is comprised of 81,596 shares of restricted stock that vest based upon the passage of time and Mr. Klopp s continued service at the company, and 81,596 shares of performance stock that vest based upon the achievement of at least a 13% total shareholder return for the period commencing at the confirmation date through December 31,

2012.

Outstanding Equity Awards at Fiscal Year-End 2009

The following table shows the number of shares covered by stock options and restricted and performance stock grants held by our named executive officers on December 31, 2009.

No stock options have been granted since our election to be taxed as a REIT in 2003 after which we determined to use restricted and performance stock as the principal form of equity based long-term incentive compensation. All stock options are fully vested.

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		Option Awards			Stock Awards			
Name	**Grant Date**	**Number of securities underlying unexercised options currently exercisable (#)**	**Option exercise price ($)**	**Option expiration date**	**Number of shares of restricted stock that have not vested(1) (#)**	**Market value of shares of restricted stock that have not vested(2) ($)**	**Equity incentive plan awards: number of unearned shares of performance stock that have not vested (#)**	**Equity incentive plan awards: market or payout value of unearned shares of performance stock that have not vested ($)**
Stephen D. Plavin	5/7/2001	10,001	15.00	5/7/2011				
Geoffrey G. Jervis	2/1/2001	2,223	13.50	2/1/2011				
Thomas C. Ruffing								
John R. Klopp	2/24/2000	33,334	18.00	2/24/2010				
	2/1/2001	33,334	13.50	12/1/2010				
	2/1/2002	83,334	13.90	12/1/2010				
	2/15/2008				3,303	4,195		
	1/31/2009				20,400	25,908		

(1) Represents the number of shares underlying restricted stock awards that vest based upon the passage of time and /or the employees continued

service at the company.

(2) Market value of shares based upon the $1.27 NYSE closing price on December 31, 2009.

Option Exercises and Stock Vested

The following table shows the number of shares of our class A common stock acquired upon the vesting of restricted stock awards and the exercise of stock options during the year ended December 31, 2009.

	Option Awards(1)		Stock Awards(2)	
Name	**Number of Shares Acquired on Exercise (#)**	**Value Realized on Exercise ($)**	**Number of Shares Acquired on Vesting (#)**	**Value Realized on Vesting ($)**
John R. Klopp			83,016	124,240
Geoffrey G. Jervis			16,969	36,892
Stephen D. Plavin			5,625	20,250
Thomas C. Ruffing			5,415	19,015

(1) All options issued by us to named executive officers were issued prior to 2003, have fully vested pursuant to their respective award agreement and are exercisable. Value Realized on Exercise equals the market value on the date of exercise less the exercise price.

(2)

The number of shares acquired on vesting is comprised exclusively of shares of restricted stock which vested in 2009 pursuant to all prior grants to each employee and the value shown is based upon the market price on the various vesting dates.

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Director Compensation

In 2009, our non-employee directors earned fees at an annual rate of $75,000. All of our non-employee directors, except for one, elected in 2009 to receive their fees in the form of stock units issued under our 2007 Plan. Payment for services is made quarterly. For those directors who receive stock units, the number of units is determined based upon the quarterly fee ($18,750) and the average stock price for the applicable quarter. There is currently no separate compensation for service on committees of the board of directors. All directors are also reimbursed for travel expenses incurred in attending board and committee meetings.

The following table sets forth the compensation paid by us to our non-employee directors for the fiscal year ended December 31, 2009:

Name	Fees Earned or Paid in Cash ($)(1)	Stock Awards ($)	Option Awards ($)	Non-equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation ($)	Total ($)
Samuel Zell	75,000						75,000
Thomas E. Dobrowski	75,000						75,000
Martin L. Edelman	75,000						75,000
Craig M. Hatkoff	75,000						75,000
Edward S. Hyman	75,000						75,000
Henry N. Nassau	75,000						75,000
Joshua A. Polan	75,000						75,000
Lynne B. Sagalyn	75,000						75,000

(1) With the exception of Mr. Polan, whose compensation is paid in cash to W.R. Berkley Corporation, all of our non-employee directors elected to receive their fees in the form of stock units issued under our 2007 Plan.

Effective January 1, 2010, one-half of the fees to non-employee directors will be paid in cash and one-half in the form of stock units issued under our 2007 Plan, except that 100% of fees earned by Mr. Polan and Mr. Nassau will be paid in cash.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our officers and directors, and persons who own, or are part of a group that owns, more than 10% of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC and the NYSE. Officers, directors and greater than 10% shareholders are required by regulation of the SEC to furnish us with copies of all Section 16(a) forms they file.

Based solely on our review of Forms 3, 4 and 5 and amendments thereto available to us and other information obtained from our directors, officers and certain 10% shareholders or otherwise available to us, we believe that no director, officer or beneficial owner of more than 10% of our class A common stock failed to file on a timely basis a report required pursuant to Section 16(a) of the Exchange Act with respect to 2009.

Security Ownership of Certain Beneficial Owners and Management

As of April 29, 2010, there were a total of 21,900,941 shares of our class A common stock issued and outstanding. The following table sets forth as of April 29, 2010, certain information with respect to the beneficial ownership of our class A common stock, by:

each person known to us to be the beneficial owner of more than 5% of our outstanding class A common stock;

each director, director nominee and named executive officer currently employed by us; and

	$ --	$ 11,877	$ --	
Additions	--	12,500	--	12,500
Amortization expense	(459)	(142)	(1,394)	(142)
Balance at end of period	$ 10,483	$ 12,358	$ 10,483	$ 12,358

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
December 31, 2007	1,616
December 31, 2008	1,494
December 31, 2009	1,362
December 31, 2010	1,215

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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:

	September 30, 2005			
		Gross Unrealized		
(Dollars in thousands)	**Amortized Cost**	**Gains**	**Losses**	**Fair Value**
Held to maturity:				
Municipal obligations	$ 114	$ --	$ --	$ 114

	September 30, 2005			
Available for sale:				
Mortgage-backed securities	23,274	125	396	23,003
U.S. Government securities and agency obligations	75,992	--	1,229	74,763
Corporate securities	10,273	67	63	10,277
Municipal obligations	19,873	44	50	19,867
Agency equity securities	546	--	7	539
Asset Management Fund - ARM Fund	6,000	--	140	5,860
Total investment and mortgage-backed securities, available for sale	$ 135,958	$ 236	$ 1,885	$ 134,309

	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
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

Investment and mortgage-backed securities available for sale in a continuous loss position for 12 months or longer consisted of 59 securities with unrealized losses of $540,000 at September 30, 2005 as compared to one security with an unrealized loss of $73,000 at December 31, 2004. The unrealized losses on these securities resulted from increases in market interest rates and we do not deem the conditions that caused these losses to be other-than-temporary.

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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:

	September 30, 2005		December 31, 2004	
(Dollars in thousands)	Amount	%	Amount	%
Real estate loans:				
One-to-four family residential (1)	$ 414,697	11.84 %	$ 418,270	13.54 %

	September 30, 2005		December 31, 2004	
Second mortgage residential	180,660	5.16	255,222	8.26
Multi-family residential	179,781	5.13	142,454	4.61
Commercial real estate and land	623,043	17.80	597,114	19.33
Residential construction	889,172	25.40	601,075	19.46
Commercial construction	359,827	10.28	282,399	9.14
Agriculture	58,691	1.68	66,830	2.16
Total real estate loans	2,705,871	77.29	2,363,364	76.50
Business loans	163,608	4.67	142,675	4.62
Agriculture - operating	67,920	1.94	71,223	2.31
Warehouse mortgage lines of credit	155,418	4.44	132,928	4.30
Consumer loans:				
Home equity	62,509	1.78	56,441	1.83
Home equity line of credit	145,588	4.16	142,725	4.62
Home improvement	71,697	2.05	73,386	2.37
Automobile	87,497	2.50	80,512	2.61
Other	40,900	1.17	25,956	0.84
Total consumer loans	408,191	11.66	379,020	12.27
Total loans	3,501,008	100.00 %	3,089,210	100.00 %
Unamortized premiums, discounts and deferred loan fees	4,888		7,228	
Undisbursed portion of construction and land development loans in process	(620,009)		(441,452)	
Net loans	2,885,887		2,654,986	
Allowance for loan losses	(29,447)		(26,831)	
Net loans after allowance for loan losses	$ 2,856,440		$ 2,628,155	
(1) Includes loans held for sale	$ 11,617		$ 11,956	

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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 September 30,		At or for the Nine Months Ended September 30,	
(Dollars in thousands)	2005	2004	2005	2004
Allowance for loan losses, beginning of period	$ 28,347	$ 20,886	$ 26,831	$ 19,586

	At or for the Three Months Ended September 30,		At or for the Nine Months Ended September 30,	
Allowance for loan losses acquired from acquisition	--	4,221	--	4,221
Provision for loan losses	1,691	922	4,402	2,961
Charge-offs	(830)	(511)	(2,306)	(1,427)
Recoveries on loans previously charged-off	239	84	520	261
Allowance for loan losses, end of period	$ 29,447	$ 25,602	$ 29,447	$ 25,602
Allowance for loan losses as a percentage of net loans	1.02%	1.05%	1.02%	1.05%

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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 $10.8 million and $6.1 million at September 30, 2005 and December 31, 2004, respectively. There was an allowance for loan loss allocated to impaired loans of $732,000 and $464,000 at September 30, 2005 and December 31, 2004, respectively.

(Dollars in thousands)	September 30, 2005	December 31, 2004
Nonperforming loans:		
One-to-four family residential	$ 1,902	$ 1,914
Second mortgage residential	515	739
Multi-family residential	5,619	2,374
Commercial real estate and land	969	707
Residential construction	2,367	2,256
Agriculture real estate	113	349
Business	394	771
Agriculture - operating	689	1
Consumer	1,189	1,121
Total nonperforming loans	13,757	10,232
Real estate owned, net (1)	2,533	382
Total nonperforming assets	16,290	10,614
Troubled debt restructurings	5,170	3,469

(Dollars in thousands)	September 30, 2005	December 31, 2004
Total nonperforming assets and troubled debt restructurings	$ 21,460	$ 14,083
Total nonperforming loans as a percent of net loans	0.48%	0.39%
Total nonperforming assets as a percent of total assets	0.50%	0.35%
Total nonperforming assets and troubled debt restructurings as a percent of total assets	0.66%	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	214.05%	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

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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 September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2005	2004	2005	2004
Balance at beginning of period	$ 10,745	$ 10,117	$ 10,505	$ 8,705
Mortgage servicing rights capitalized	841	908	2,425	2,703
Mortgage servicing rights acquired from acquisition	--	402	--	402
Amortization expense	(778)	(628)	(2,119)	(2,179)
Valuation adjustment	74	(155)	71	1,013
Balance at end of period	$ 10,882	$ 10,644	$ 10,882	$ 10,644

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2005	2004	2005	2004
Balance at beginning of period	$ 803	$ 500	$ 800	$ 1,668
Changes in mortgage servicing valuation reserve	(74)	155	(71)	(1,013)
Balance at end of period	$ 729	$ 655	$ 729	$ 655

	Three Months Ended September 30,	Nine Months Ended September 30,

The following table compares the key assumptions used in measuring the fair values of mortgage servicing rights at September 30, 2005 and December 31, 2004:

(Dollars in thousands)	September 30, 2005	December 31, 2004
Serviced loan portfolio balance	$1,180,789	$1,111,104
Fair value	$12,217	$11,503
Prepayment speed	8.82% - 35.82%	7.86% - 35.52%
Weighted average prepayment speed	16.26%	17.17%
Fair value with 10% adverse change	$11,727	$11,021
Fair value with 20% adverse change	$11,192	$10,528
Discount rate	9.50% - 15.00%	10.00% - 15.50%
Weighted average discount rate	11.30%	11.74%
Fair value with 10% adverse change	$11,937	$11,207
Fair value with 20% adverse change	$11,576	$10,867

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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:

	September 30, 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 September 30, 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 and nine months ended September 30, 2005 was $718,000 and $2.2 million, respectively, compared to $682,000 and $2.0 million for the three and nine months ended September 30, 2004, respectively.

Stock Option Plan. The Company established the 2003 Stock Option Plan (SOP) under which 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.

	September 30, 2005		
	Options Outstanding	Remaining Contractual Life	Options Exercisable
Stock options issued and outstanding at an exercise price of $17.83	1,832,750	7.6 years	730,100

	September 30, 2005		
Stock options issued and outstanding at an exercise price of $22.40	45,000	9.1 years	--
Stock options outstanding, end of period	1,877,750	--	--
Stock options remaining for future grants	359,758		

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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 September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except per share data)	**2005**	**2004**	**2005**	**2004**
Net income (as reported)	$ 8,563	$ 5,487	$ 23,349	$ 17,122
Add: stock-based employee compensation expense included in reported net income, net of related tax effects	467	443	1,401	1,330
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(749)	(715)	(2,247)	(2,145)
Pro forma net income	$ 8,281	$ 5,215	$ 22,503	$ 16,307
Basic earnings per share (as reported)	$ 0.53	$ 0.34	$ 1.44	$ 1.01
Pro forma basic earnings per share	0.51	0.32	1.39	0.96
Diluted earnings per share (as reported)	0.51	0.34	1.40	0.99
Pro forma diluted earnings per share	0.50	0.32	1.36	0.95

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.

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Note 12 Deposits

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

	September 30, 2005		December 31, 2004	
(Dollars in thousands)	**Weighted Average Rates**	**Amount**	**Weighted Average Rates**	**Amount**
Transaction accounts:				
Noninterest-bearing checking	--%	$ 117,834	--%	$ 112,216
Savings	0.58	61,632	0.65	79,546
Interest-bearing checking	0.97	390,425	0.67	414,093
Money market	1.67	288,778	1.09	291,111
Total transaction accounts	1.04	858,669	0.72	896,966
Time deposits:				
0.00% to 2.99%		234,302		589,373
3.00% to 4.99%		832,960		364,400
5.00% to 6.99%		7,525		14,022
Total time deposits	3.43	1,074,787	2.77	967,795
Total deposits	2.37%	$ 1,933,456	1.79%	$ 1,864,761

Note 13 Federal Home Loan Bank Advances and Other Borrowings

At September 30, 2005 and December 31, 2004, the Company was indebted on notes as shown in the following table:

(Dollars in thousands)	**September 30, 2005**	**December 31, 2004**
Permanent fixed-rate notes payable to the Federal Home Loan Bank	$ 68,358	$ 83,819
Convertible fixed-rate notes payable to the Federal Home Loan Bank	620,880	426,045
Line of credit with the Federal Home Loan Bank	185,200	261,200
Adjustable-rate note payable to the Federal Home Loan Bank	10,000	10,000
Retail repurchase agreements	33,811	22,674
Junior subordinated debentures	37,928	37,928
Total Federal Home Loan Bank advances and other borrowings	$ 956,177	$ 841,666
Weighted average interest rate	3.84%	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 will be renewed in the ordinary course of business.

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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 certain recently issued accounting guidance.

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) became 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.

In June 2005, FASB issued SFAS No. 154, *Reporting Accounting Changes and Error Corrections* (SFAS No. 154). SFAS No. 154 requires retrospective application for voluntary changes in accounting principle unless it is impracticable to do so. SFAS No. 154 s retrospective application requirement replaces Accounting Principles Board Opinion 20 s requirement to recognize most voluntary changes in accounting principle by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. If the cumulative effect of the change in accounting principle can be determined, but it is impracticable to determine the specific effects of an accounting change on one or more prior periods presented, the change in accounting policy will have to be applied to balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable, with a corresponding adjustment made to the opening balance of retained earnings or other components of equity (e.g., accumulated other comprehensive income) for that period. If it is impracticable to determine the cumulative effect of applying a change in accounting principle, the new accounting principle is to be applied prospectively from the earliest date practicable. If retrospective application for all prior periods is impracticable, the method used to report the change and the reason that retrospective application is impracticable are to be disclosed. The requirements of SFAS No. 154 are effective for accounting changes made in fiscal years beginning after December 15, 2005.

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General

TierOne Bank (Bank), a subsidiary of TierOne Corporation (Company), is a $3.2 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 primarily on the results of operations of the Bank. The Bank 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 the Company and the Bank.

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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 or other competitive factors which could affect net interest margin, net interest income and noninterest income;

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

Unanticipated issues impacting the Company's judgments with respect to future loan losses;

Changes in asset quality and general economic conditions;

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

Changes in the regulatory environment;

Unanticipated issues relating to the construction of the Company's new banking offices in Omaha and Hastings, Nebraska; 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.

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Comparison of Financial Condition at September 30, 2005 and December 31, 2004

Assets

General. Our total assets were $3.2 billion at September 30, 2005, a $198.2 million, or 6.5%, increase compared to $3.0 billion at December 31, 2004. We continue to focus our efforts on attracting 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 totaled $111.3 million at September 30, 2005, a $16.5 million, or 12.9%, decrease compared to $127.8 million at December 31, 2004. The decrease in our available for sale investment securities was primarily due to $18.5 million in proceeds received from maturing and sold investment securities partially offset by the purchase of $3.5 million of investment securities. Our mortgage-backed securities, all of which are recorded as available for sale, amounted to $23.0 million at September 30, 2005, a $13.2 million, or 36.4%, decrease compared to $36.2 million at December 31, 2004. The decrease in our mortgage-backed securities was primarily the result of $12.9 million of principal payments received during the nine months ended September 30, 2005.

Loans Receivable. Net loans (after allowance for loan losses) totaled $2.9 billion at September 30, 2005, a $228.3 million, or 8.7%, increase compared to December 31, 2004. This increase was primarily attributable to increased originations and/or purchases in our residential construction, commercial construction, warehouse mortgage lines of credit and commercial real estate and land loan portfolios partially offset by a decline in our second mortgage residential loan portfolio. Residential construction loans totaled $889.2 million at September 30, 2005, a $288.1 million, or 47.9%, increase compared to $601.1 million at December 31, 2004. As part of our above described strategy, we have increased our portfolio of residential construction loans since these loans historically have provided relatively higher yields, shorter terms to maturity and additional loan fee income. During the nine months ended September 30, 2005, we originated $429.1 million and purchased through correspondents $463.8 million of residential construction loans which were partially offset by $605.9 million of payoffs. Commercial real estate and land loans amounted to $623.0 million at September 30, 2005, a $25.9 million, or 4.3%, increase compared to $597.1 million at December 31, 2004. Commercial construction loans increased $77.4 million, or 27.4%, to $359.8 million at September 30, 2005 compared to $282.4 million at December 31, 2004. The increase was 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). Multi-family residential loans totaled $179.8 million at September 30, 2005, an increase of $37.3 million, or 26.2%, compared to $142.5 million at December 31, 2004. The increase in multi-family residential loans is primarily attributable to adjustable-rate loan purchases of $55.1 million during the nine months ended September 30, 2005. Warehouse mortgage lines of credit increased $22.5 million, or 16.9%, to $155.4 million at September 30, 2005 compared to $132.9 million at December 31, 2004. The increase in warehouse mortgage lines of credit was primarily attributable to increased residential mortgage lending activity. Second mortgage residential loans totaled $180.7 million at September 30, 2005, a $74.6 million, or 29.2%, decrease compared to $255.2 million at December 31, 2004. The decrease in our second mortgage residential loans at September 30, 2005 was primarily attributable to principal payments and prepayments.

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 $1.3 billion of gross loan originations, exclusive of warehouse mortgage lines of credit and loan purchases, for the nine months ended September 30, 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 $2.6 million, or 9.7%, to $29.4 million at September 30, 2005 compared to $26.8 million at December 31, 2004. Charge-offs, net of recoveries, were $1.8 million during the nine months ended September 30, 2005, an increase of $620,000, or 53.2%, compared to $1.2 million for the nine months ended September 30, 2004. The increase was primarily the result of a charge-off during the three months ended June 30, 2005 of a multi-family residential loan acquired in the United Nebraska Financial Co. (UNFC) transaction. Our ratio of the allowance for loan losses to net loans was 1.02% and 1.01% at September 30, 2005 and December 31, 2004, respectively.

Goodwill and Other Intangible Assets. Our goodwill at September 30, 2005 was $42.3 million and relates to our acquisition of UNFC in 2004. Other intangible assets totaled $10.5 million at September 30, 2005, a decrease of $1.4 million, or 11.7%, compared to $11.9 million at December 31, 2004 and relates to the core deposits recorded as a result of the UNFC acquisition. The decrease was attributable to amortization during the nine months ended September 30, 2005.

Other Assets. Our other assets increased $3.3 million, or 14.2%, to $26.9 million at September 30, 2005 compared to $23.6 million at December 31, 2004. At September 30, 2005, the largest item recorded in other assets was mortgage servicing assets of $10.9 million. The remainder consisted of prepaid expenses, miscellaneous receivables and other miscellaneous assets.

Liabilities and Stockholders Equity

General. Our total liabilities were $2.9 billion at September 30, 2005, a $176.7 million, or 6.4%, increase compared to December 31, 2004. We utilized Federal Home Loan Bank (FHLB) advances and other borrowings and deposits to fund increased lending activities.

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Deposits. Our total deposits increased by $68.7 million, or 3.7%, to $1.9 billion at September 30, 2005. The increase in deposits was attributable to a $115.3 million increase in retail deposits which was partially offset by a $46.6 million decline in brokered time deposits. Time deposits increased $107.0 million, or 11.1%, to $1.1 billion at September 30, 2005 compared to $967.8 million at December 31, 2004. Our retail generated time deposits increased $153.6 million at September 30, 2005 compared to December 31, 2004 which was partially offset by a $46.6 million decline in brokered time deposits. The increase in our time deposits was primarily the result of marketing promotions held during the nine months ended September 30, 2005 to attract new deposit accounts and establish new customer relationships. The weighted average rate of our time deposits was 3.43% at September 30, 2005 compared to 2.77% at December 31, 2004. Our transaction accounts totaled $858.7 million at September 30, 2005, a decrease of $38.3 million, or 4.3%, compared to $897.0 million at December 31, 2004. The decrease in our transaction accounts was primarily the result of customer migration to time deposit accounts due to a rising interest rate environment. Brokered time deposits (included in our time deposits) amounted to $78.0 million at September 30, 2005, a decrease of $46.6 million, or 37.4% compared to $124.6 million at December 31, 2004. Brokered time deposits maturing during the nine months ended September 30, 2005 totaled $123.8 million which were partially offset by the purchase of $77.6 million of brokered time deposits. We utilize brokered time deposits as an additional funding source for loan origination and purchase activity.

FHLB Advances and Other Borrowings. Our FHLB advances and other borrowings amounted to $956.2 million at September 30, 2005, a $114.5 million, or 13.6%, increase compared to $841.7 million at December 31, 2004. The increase in FHLB advances and other borrowings at September 30, 2005 was primarily attributable to borrowing an additional $250.0 million of convertible fixed-rate advances from the FHLB partially offset by the repayment of $70.4 million of FHLB advances and a $44.3 million reduction in our outstanding line of credit with the FHLB. We have utilized FHLB advances to augment deposits as a funding source for loan origination and purchase activity. Our outstanding line of credit with the FHLB was $185.2 million at September 30, 2005 compared to $261.2 million at December 31, 2004. The weighted average interest rate on our FHLB advances and other borrowings was 3.84% at September 30, 2005, an increase of 59 basis points compared to 3.25% at December 31, 2004. The increase in the weighted average interest rate on our FHLB advances and other borrowings was primarily attributable to rising interest rates.

Stockholders Equity. At September 30, 2005, stockholders equity totaled $298.6 million, an increase of $21.5 million, or 7.8%, from December 31, 2004. The increase in stockholders equity primarily reflects net income of $23.3 million during the nine months ended September 30, 2005, $2.9 million related to common stock earned by participants in the Employee Stock Ownership Plan (ESOP) and $2.3 million related to amortization of awards under the 2003 Management Recognition and Retention Plan (MRRP). These increases were partially offset by the purchase of 147,571 shares of common stock at a cost of $3.6 million and $2.8 million in cash dividends paid to the Company s stockholders. The Company paid cash dividends of $0.05 per common share on March 31, 2005 to shareholders of record on March 15, 2005 and $0.06 per common share on June 30, 2005 and September 30, 2005 to shareholders of record on June 15, 2005 and September 15, 2005, respectively.

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On July 27, 2004, the Company announced that the Board of Directors had authorized the repurchase of up to 1,828,581 shares of the Company s outstanding common stock. There is no stated expiration date for this authorization. During the three and nine months ended September 30, 2005, the Company repurchased 282 and 147,571 shares, respectively, of its common stock. At September 30, 2005, the total remaining common stock repurchase authority is 1,681,010 shares. For further discussion regarding the Company s common stock repurchases, see Part II, Item 2 Unregistered Sales of Equity Securities and Use of Proceeds .

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Comparison of Operating Results for the Three and Nine Months Ended September 30, 2005 and September 30, 2004

Net Income. Net income for the three months ended September 30, 2005 was $8.6 million, or $0.51 per diluted share ($0.53 per basic share), compared to net income of $5.5 million, or $0.34 per diluted and basic share, for the three months ended September 30, 2004. Net

income for the nine months ended September 30, 2005 was $23.3 million, or $1.40 per diluted share ($1.44 per basic share), compared to net income of $17.1 million, or $0.99 per diluted share ($1.01 per basic share), for the nine months ended September 30, 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 $26.7 million for the three months ended September 30, 2005, an increase of $7.8 million, or 41.5%, compared to $18.9 million for the three months ended September 30, 2004. For the nine months ended September 30, 2005, our net interest income totaled $76.7 million, an increase of $23.0 million, or 42.8%, compared to $53.7 million for the nine months ended September 30, 2004. The increases in net interest income were attributable to the continued growth of our loan portfolio and increased average yields on interest-earning assets, primarily loans receivable.

Our average interest rate spread for the three months ended September 30, 2005 and September 30, 2004 was 3.29% and 3.00%, respectively. Our average interest rate spread increased to 3.29% for the nine months ended September 30, 2005 compared to 2.95% for the nine months ended September 30, 2004. The average yield on interest-earning assets for the three months ended September 30, 2005 was 6.14%, a 77 basis point increase compared to 5.37% for the three months ended September 30, 2004. The average yield on interest-earning assets for the nine months ended September 30, 2005 was 5.90% compared to 5.27% for the nine months ended September 30, 2004, an increase of 63 basis points. Our net interest margin (net interest income divided by average interest-earning assets) for the three and nine month periods ended September 30, 2005 was 3.55% and 3.52%, respectively, compared to 3.25% for both the three and nine month periods ended September 30, 2004, respectively. The increase in our average interest rate spread and net interest margin was primarily due to an increase in the average balance and average yield of interest-earning assets. The ratio of average interest-earning assets to average interest-bearing liabilities declined to 109.95% and 110.07% for the three and nine months ended September 30, 2005, respectively, compared to 112.06% and 114.97% for the three and nine months ended September 30, 2004, respectively. These declines resulted primarily from recognition of goodwill associated with the UNFC acquisition and funding of the Company s stock repurchase program.

Interest Income. Our total interest income for the three months ended September 30, 2005 was $46.2 million, a $15.1 million, or 48.5%, increase compared to $31.1 million for the three months ended September 30, 2004. Interest income on loans receivable totaled $44.2 million for the three months ended September 30, 2005, an increase of $14.5 million, or 48.6%, compared to $29.7 million for the three months ended September 30, 2004. The average balance of loans receivable during the three months ended September 30, 2005 was $2.8 billion, an increase of $637.1 million, or 29.3%, compared to $2.2 billion for the three months ended September 30, 2004. The average yield earned on the loan portfolio was 6.29% and 5.47% for the three months ended September 30, 2005 and September 30, 2004, respectively.

For the nine months ended September 30, 2005 our interest income totaled $128.4 million, a $41.3 million, or 47.3%, increase compared to $87.2 million for the nine months ended September 30, 2004. The average balance of loans receivable totaled $2.7 billion for the nine months ended September 30, 2005, an increase of $602.2 million, or 28.7%, compared to $2.1 billion for the nine months ended September 30, 2004. The average yield earned on the loan portfolio was 6.04% and 5.34% for the nine months ended September 30, 2005 and September 30, 2004, respectively.

The increase in interest income for the three and nine month periods ended September 30, 2005 was primarily attributable to increases in the average balances of loans receivable and average yield earned on the loan portfolio. The increase in the average balance of loans receivable was 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 was the result of our strategy to sustain our loan portfolio holdings of loans with relatively higher yields, adjustable interest rates and/or shorter terms to maturity.

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Interest Expense. Our total interest expense for the three months ended September 30, 2005 was $19.5 million, a $7.3 million, or 59.2%, increase compared to $12.3 million for the three months ended September 30, 2004. Interest expense on deposits totaled $10.9 million for the three months ended September 30, 2005, an increase of $4.0 million, or 57.5%, compared to $6.9 million for the three months ended September 30, 2004. The average balance of interest-bearing deposits totaled $1.8 billion for the three months ended September 30, 2005, an increase of $385.2 million, or 26.8%, compared to $1.4 billion for the three months ended September 30, 2004. The average rate paid on interest-bearing deposits was 2.40% for the three months ended September 30, 2005 compared to 1.93% for the three months ended September 30, 2004. Interest expense on FHLB advances and other borrowings increased $3.3 million, or 61.5%, to $8.6 million for the three months ended September 30, 2005 compared to $5.3 million for the three months ended September 30, 2004. The average balance of our FHLB advances and other borrowings increased $283.7 million, or 44.8%, to $917.0 million for the three months ended September 30, 2005 compared to $633.2 million for the three months ended September 30, 2004. The average rate paid on our FHLB advances and other borrowings was 3.75% and 3.37% for the three months ended September 30, 2005 and September 30, 2004, respectively.

Our total interest expense for the nine months ended September 30, 2005 totaled $51.7 million, an $18.3 million, or 54.6%, increase compared to $33.4 million for the nine months ended September 30, 2004. Interest expense on deposits amounted to $29.7 million for the nine months ended September 30, 2005, an increase of $11.3 million, or 61.1%, compared to $18.5 million for the nine months ended September 30, 2004. The average balance of interest-bearing deposits totaled $1.8 billion for the nine months ended September 30, 2005, an increase of $520.1 million, or 40.0%, compared to $1.3 billion for the nine months ended September 30, 2004. The average rate paid on interest-bearing deposits was 2.18% for the nine months ended September 30, 2005 compared to 1.89% for the nine months ended September 30, 2004. Interest expense on FHLB advances and other borrowings totaled $22.0 million for the nine months ended September 30, 2005, an increase of $7.0 million, or 46.6%, compared to $15.0 million for the nine months ended September 30, 2004. The average balance of our FHLB advances and other borrowings totaled $816.8 million for the nine months ended September 30, 2005, an increase of $200.0 million, or 32.4%, compared to $616.8 million for the nine months ended September 30, 2004. The average rate paid on our FHLB advances and other borrowings was 3.59% and 3.24% for the nine months ended September 30, 2005 and September 30, 2004, respectively.

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The principle reason for the increase in interest expense for the three and nine month periods ended September 30, 2005 when compared to the same periods in 2004 was the increase in the average balance of interest-bearing deposits which was primarily attributable to deposits acquired in the UNFC transaction. Additionally, the increase in interest expense was also attributable to an increase in the average balance of FHLB advances and other borrowings and rising interest rates.

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Average Balances, Net Interest Income, Yields Earned and Cost of Funds. The following tables show 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.

(Dollars in thousands)	Three Months Ended September 30,					
	2005			2004		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
Interest-earning assets:						
Federal funds sold	$ --	$ --	--%	$ 8,709	$ 31	1.42%
Investment securities (1)	170,991	1,766	4.13	111,670	1,142	4.09
Mortgage-backed securities (1)	25,790	235	3.64	21,802	201	3.69
Loans receivable (2)	2,813,000	44,208	6.29	2,175,880	29,741	5.47
Total interest-earning assets	3,009,781	46,209	6.14%	2,318,061	31,115	5.37%
Noninterest-earning assets	193,769			139,357		
Total assets	$ 3,203,550			$ 2,457,418		
Interest-bearing liabilities:						
Interest-bearing checking accounts	$ 367,277	$ 680	0.74%	$ 327,391	$ 634	0.77%
Savings accounts	65,710	96	0.58	44,938	127	1.13
Money market accounts	317,998	1,333	1.68	272,845	667	0.98
Time deposits	1,069,554	8,800	3.29	790,131	5,498	2.78
Total interest-bearing deposits	1,820,539	10,909	2.40	1,435,305	6,926	1.93
Federal Home Loan Bank advances and other borrowings	916,955	8,604	3.75	633,219	5,329	3.37
Total interest-bearing liabilities	2,737,494	19,513	2.85%	2,068,524	12,255	2.37%
Noninterest-bearing accounts	110,838			74,299		
Other liabilities	61,252			49,482		
Total liabilities	2,909,584			2,192,305		
Stockholders equity	293,966			265,113		
Total liabilities and stockholders equity	$ 3,203,550			$ 2,457,418		
Net interest-earning assets	$ 272,287			$ 249,537		
Net interest income; average interest rate spread		$ 26,696	3.29%		$ 18,860	3.00%
Net interest margin (3)			3.55%			3.25%
Average interest-earning assets to average interest-bearing liabilities			109.95%			112.06%

(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.

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Nine Months Ended September 30,

(Dollars in thousands)	Nine Months Ended September 30, 2005 Average Balance	2005 Interest	2005 Average Yield/Rate	2004 Average Balance	2004 Interest	2004 Average Yield/Rate
Interest-earning assets:						
Federal funds sold	$ --	$ --	--%	$ 2,924	$ 31	1.42%
Investment securities (1)	175,096	5,303	4.04	89,149	2,727	4.08
Mortgage-backed securities (1)	30,114	828	3.67	16,871	446	3.52
Loans receivable (2)	2,698,221	122,303	6.04	2,096,027	83,978	5.34
Total interest-earning assets	2,903,431	128,434	5.90%	2,204,971	87,182	5.27%
Noninterest-earning assets	194,639	106,526				
Total assets	$ 3,098,070			$ 2,311,497		
Interest-bearing liabilities:						
Interest-bearing checking accounts	$ 385,612	$ 1,992	0.69%	$ 308,005	$ 1,785	0.77%
Savings accounts	71,849	323	0.60	28,947	160	0.74
Money market accounts	314,424	3,510	1.49	267,007	1,915	0.96
Time deposits	1,049,236	23,915	3.04	697,044	14,598	2.79
Total interest-bearing deposits	1,821,121	29,740	2.18	1,301,003	18,458	1.89
Federal Home Loan Bank advances and other borrowings	816,754	21,961	3.59	616,787	14,981	3.24
Total interest-bearing liabilities	2,637,875	51,701	2.61%	1,917,790	33,439	2.32%
Noninterest-bearing accounts	111,491			58,374		
Other liabilities	62,099			54,211		
Total liabilities	2,811,465			2,030,375		
Stockholders equity	286,605			281,122		
Total liabilities and stockholders equity	$ 3,098,070			$ 2,311,497		
Net interest-earning assets	$ 265,556			$ 287,181		
Net interest income; average interest rate spread		$ 76,733	3.29%		$ 53,743	2.95%
Net interest margin (3)			3.52%			3.25%
Average interest-earning assets to average interest-bearing liabilities			110.07%			114.97%

(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.

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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 September 30, 2005 Compared to Three Months Ended September 30, 2004			Nine Months Ended September 30, 2005 Compared to Nine Months Ended September 30, 2004		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
(Dollars in thousands)	Rate	Volume	Total Increase (Decrease)	Rate	Volume	Total Increase (Decrease)
Interest income:						
Federal funds sold	$ (15)	$ (16)	$ (31)	$ (15)	$ (16)	$ (31)
Investment securities	11	613	624	(27)	2,603	2,576
Mortgage-backed securities	(3)	37	34	20	362	382
Loans receivable (1)	4,899	9,568	14,467	12,008	26,317	38,325
Total interest income	4,892	10,202	15,094	11,986	29,266	41,252
Interest expense:						
Interest-bearing checking accounts	(26)	72	46	(201)	408	207
Savings accounts	(76)	45	(31)	(35)	198	163
Money market accounts	540	126	666	1,207	388	1,595
Time deposits	1,128	2,174	3,302	1,403	7,914	9,317
Total deposits	1,566	2,417	3,983	2,374	8,908	11,282
Federal Home Loan Bank advances and other borrowings	659	2,616	3,275	1,744	5,236	6,980
Total interest expense	2,225	5,033	7,258	4,118	14,144	18,262
Net change in net interest income	$ 2,667	$ 5,169	$ 7,836	$ 7,868	$ 15,122	$ 22,990

(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 $1.7 million for the three months ended September 30, 2005 compared to $922,000 for the three months ended September 30, 2004, an increase of $769,000, or 83.4%. For the nine months ended September 30, 2005 our provision for loan losses totaled $4.4 million, an increase of $1.4 million, or 48.7%, compared to $3.0 million for the nine months ended September 30, 2004. 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 September 30, 2005, our total nonperforming loans amounted to $13.8 million, or 0.48% of net loans, compared to $10.2 million, or 0.39% of net loans, at December 31, 2004. Our nonperforming assets totaled $16.3 million, or 0.50%, of total assets at September 30, 2005, compared to $10.6 million, or 0.35%, of total assets at December 31, 2004. The increase in nonperforming loans and nonperforming assets is primarily attributable to payment defaults on $5.6 million of seasoned loans for tax-advantaged affordable housing units. During the three months ended September 30, 2005 and September 30, 2004, we charged-off, net of recoveries, $591,000 and $427,000, respectively. During the nine months ended September 30, 2005 and September 30, 2004, we charged-off, net of recoveries, $1.8 million and $1.2 million, respectively. Charge-offs during the nine months ended September 30, 2005 consisted primarily of one multi-family residential loan acquired in the UNFC transaction combined with automobile and other consumer-related loans. At September 30, 2005, December 31, 2004 and September 30, 2004, our allowance for loan losses amounted to 1.02%, 1.01% and 1.05%, respectively, of net loans.

Noninterest Income. Noninterest income for the three months ended September 30, 2005 was $6.6 million, a $1.3 million, or 24.8%, increase compared to $5.3 million for the three months ended September 30, 2004. Noninterest income for the three months ended September 30, 2005 included a $769,000 increase in deposit fees, a $232,000 increase in non-deposit and lending-related fees, a $74,000 recapture of previous mortgage servicing rights (MSR) impairments rather than a $150,000 MSR impairment recorded during the three months ended September 30, 2004 and a $145,000 net gain on loans held for sale. These increases were partially offset by a $149,000 increase in MSR amortizations.

For the nine months ended September 30, 2005, total noninterest income was $18.9 million, a $1.9 million, or 11.1%, increase compared to $17.0 million for the nine months ended September 30, 2004. The increase was primarily attributable to increases of $2.5 million in deposit fees and $1.7 million in non-deposit and lending-related fees. These increases were partially offset by a $1.5 million reduction in other operating income due primarily to a one-time gain in early 2004 associated with the Bank s merger of its defined benefit pension plan with an unrelated third party plan and a $947,000 reduction in recapture of previous MSR impairments.

Noninterest Expense. Our noninterest expense increased by $3.4 million, or 23.8%, to $18.0 million for the three months ended September 30, 2005 compared to $14.5 million for the three months ended September 30, 2004. The increase in noninterest expense resulted primarily from a $1.5 million increase in employee compensation and benefits expense, a $1.3 million increase in other operating expenses and a $475,000 increase in occupancy expense. In large part, the increase in noninterest expense was attributable to the Company s August 2004 acquisition of UNFC.

Our noninterest expense increased by $13.2 million, or 32.6%, to $53.7 million for the nine months ended September 30, 2005 compared to $40.5 million for the nine months ended September 30, 2004. The increase was primarily the result of a $6.3 million increase in employee compensation and benefits expense, a $4.6 million increase in other operating expenses, a $1.6 million increase in occupancy expense and a $726,000 increase in advertising expense. The increase in noninterest expense for the nine months ended September 30, 2005 was primarily the result of expenses incurred as a result of the UNFC acquisition.

Income Tax Expense. Our income tax expense increased by $1.9 million, or 57.3%, to $5.1 million for the three months ended September 30, 2005 compared to $3.2 million for the same period in 2004. For the nine months ended September 30, 2005 our income tax expense totaled $14.2 million, an increase of $4.0 million, or 39.5%, compared to $10.2 million for the nine months ended September 30, 2004. The increase in income tax expense for the three and nine months ended September 30, 2005 compared to the same periods in 2004 was primarily 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 September 30, 2005 was 37.3% compared to 37.1% for the three months ended September 30, 2004. Our effective income tax rate for the nine months ended September 30, 2005 was 37.8% compared to 37.3% for the nine months ended September 30, 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 September 30, 2005, we had time deposits maturing within the next 12 months totaling $785.6 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 to complement deposits as a source of funds. The average balance of our FHLB advances and other borrowings was $917.0 million and $633.2 million for the three months ended September 30, 2005 and September 30, 2004, respectively. The average balance of our FHLB advances and other borrowings was $816.8 million and $616.8 million for the nine months ended September 30, 2005 and September 30, 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. Additional collateral is available if further borrowings are 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 September 30, 2005, we had the following contractual obligations (excluding bank deposits and interest) and lending commitments:

		Due In			
(Dollars in thousands)	**Total at September 30, 2005**	**1 Year**	**1-3 Years**	**3-5 Years**	**After 5 Years**
Contractual obligations:					
Federal Home Loan Bank advances and other borrowings	$ 956,177	$ 306,014	$ 42,012	$ 80,311	$ 527,840
Recourse obligations on assets	14,986	14,986	--	--	--
Purchase investment securities	1,452	1,452	--	--	--
Annual rental commitments under non-cancellable operating leases	4,058	798	1,231	665	1,364
Total contractual obligations	$ 976,673	$ 323,250	$ 43,243	$ 80,976	$ 529,204
Lending commitments:					
Commitments to originate loans	$ 161,326	$ 161,326	$ --	$ --	$ --
Commitments to sell loans	(41,795)	(41,795)	--	--	--
Commitments to purchase loans	34,984	34,984	--	--	--
Undisbursed portion of construction and land development loans in process	620,009	620,009	--	--	--
Standby letters of credit	1,966	1,966	--	--	--
Unused lines of credit:					
Warehouse mortgage lines of credit	348,083	348,083	--	--	--
Business loans	145,135	145,135	--	--	--
Consumer loans	129,602	129,602	--	--	--
Total lending commitments and unused lines of credit	$ 1,399,310	$ 1,399,310	$ --	$ --	$ --

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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 September 30, 2005, the maximum total dollar amount of such recourse was approximately $15.0 million. Based on historical experience, at September 30, 2005, we had established a liability of $738,000 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 September 30, 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 September 30, 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	$ 47,862	1.50%	$ 260,461	8.16%	$ 212,599	6.66%
Tier 1 (core) capital	127,631	4.00%	260,461	8.16%	132,830	4.16%
Total risk-based capital	221,037	8.00%	289,908	10.49%	68,871	2.49%

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

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Selected Operating Ratios

Selected operating and other ratios (annualized where appropriate) at or for the three and nine months ended September 30, 2005 and September 30, 2004 are presented in the following table:

	At or for the Three Months Ended September 30,		At or for the Nine Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
Selected Operating Ratios:				
Average yield on interest-earning assets	6.14%	5.37%	5.90%	5.27%
Average rate on interest-bearing liabilities	2.85	2.37	2.61	2.32
Average interest rate spread	3.29	3.00	3.29	2.95
Net interest margin	3.55	3.25	3.52	3.25
Average interest-earning assets to average interest-bearing liabilities	109.95	112.06	110.07	114.97
Net interest income after provision for loan losses to noninterest expense	139.30	123.68	134.73	125.38
Total noninterest expense to average assets	2.24	2.36	2.31	2.34
Efficiency ratio (1)	52.53	59.47	54.67	57.03
Return on average assets	1.07	0.89	1.00	0.99

	At or for the Three Months Ended September 30,		At or for the Nine Months Ended September 30,	
Return on average equity	11.65	8.28	10.86	8.12
Average equity to average assets	9.18	10.79	9.25	12.16
Return on tangible equity (2)	13.98	8.83	13.12	8.28
Other Ratios:				
Nonperforming loans as a percent of net loans	0.48	0.24	0.48	0.24
Nonperfoming assets as a percent of total assets	0.50	0.26	0.50	0.26
Allowance for loan losses as a percent of nonperforming loans	214.05	443.56	214.05	443.56
Allowance for loan losses as a percent of net loans	1.02	1.05	1.02	1.05

(1) Efficiency ratio is calculated as total noninterest expense, less amortization expense of intangible assets, as a percentage of the sum of net interest income and noninterest income.
(2) Return on tangible equity is calculated as annualized net income as a percentage of average stockholders equity adjusted for goodwill and other intangible assets.

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 and nine months ended September 30, 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 September 30, 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

	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
July 2005				
Beginning Date - July 1, 2005				
Ending Date - July 31, 2005	282	$ 28.14	282	1,681,010
August 2005				
Beginning Date - August 1, 2005				
Ending Date - August 31, 2005	--	--	--	1,681,010
September 2005				
Beginning Date - September 1, 2005				
Ending Date - September 30, 2005	--	--	--	1,681,010
Total shares purchased during the three months ended September 30, 2005	282	$ 28.14		

* Information related to the Company s publicly announced plan authorizing purchases of its common stock during the three months ended September 30, 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

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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.

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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: November 4, 2005

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

Date: November 4, 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