

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

SIENA HOLDINGS INC  
Form 10-Q  
May 09, 2002

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

FORM 10-Q

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

For the quarterly period ended March 31, 2002

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-6868

SIENA HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

75-1043392  
(I.R.S. employer  
identification no.)

5068 West Plano Parkway, Suite 300, Plano, Texas  
(Address of principal executive offices)

75093  
(Zip code)

(972) 381-4255

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS  
DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

YES  NO

On October 10, 1995, the Registrant and certain of its subsidiaries filed bankruptcy proceedings under Chapter 11 of the Federal Bankruptcy Code in the District of Delaware. The Registrant's plan of reorganization was effective in March 1997.

APPLICABLE ONLY TO CORPORATE ISSUERS:

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

The number of shares outstanding of each of the issuer's classes of common stock as of May 8, 2002: Common Stock, \$.10 par value -- 6,000,000 shares.

SIENA HOLDINGS, INC. AND SUBSIDIARIES

FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2002

INDEX

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Consolidated Balance Sheets -- March 31, 2002 and June 30, 2001 .....
Statements of Consolidated Operations and Comprehensive Income (Loss) -- Quarters and Nine Months Ended March 31, 2002 and 2001 .....
Statements of Consolidated Cash Flows -- Nine Months Ended March 31, 2002 and 2001 .....
Notes to Consolidated Financial Statements .....

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

Results of Operations .....
Liquidity and Capital Resources .....
Critical Accounting Policies .....

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

PART II -- OTHER INFORMATION

Item 3. Defaults Upon Senior Securities .....

Item 6. Exhibits and Reports on Form 8-K .....

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSOLIDATED BALANCE SHEETS

SIENA HOLDINGS, INC. AND SUBSIDIARIES
(in thousands, except par value)

March 31, 2002 June 30, 2002
-----
(unaudited) -----

ASSETS

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

Current Assets:

Cash and cash equivalents .....	\$ 5,853	\$ 5
Investments in equity securities .....	204	
Receivables .....	79	
Prepaid expenses .....	63	
	-----	-----
	6,199	6
	-----	-----
Investment in real estate .....	4,644	4
Deferred tax assets - net .....	1,908	1
	-----	-----
Total Assets .....	\$12,751	\$ 12
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

Accounts payable and accrued expenses .....	\$ 144	\$
Unearned income .....	125	
	-----	-----
	269	
	-----	-----

Long Term Liabilities:

Accrued medical insurance premiums .....	406	
Deferred compensation and fees .....	438	
	-----	-----
	844	
	-----	-----
	1,113	1
	-----	-----

Stockholders' Equity:

Preferred stock-- ( \$1.00 par value, 1,000 shares authorized, 0 shares issued and outstanding) .....	--	
Common stock-- ( \$.10 par value, 15,000 shares authorized, 6,000 shares issued and outstanding) .....	600	
Additional paid-in capital .....	10,212	10
Retained earnings .....	774	
Accumulated other comprehensive gain (loss), net of tax .....	52	
	-----	-----
	11,638	11
	-----	-----
Total Liabilities and Stockholders' Equity .....	\$12,751	\$ 12
	=====	=====

## Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

See notes to consolidated financial statements.

2

### STATEMENTS OF CONSOLIDATED OPERATIONS AND COMPREHENSIVE INCOME (LOSS) (Unaudited)

SIENA HOLDINGS, INC. AND SUBSIDIARIES  
(in thousands, except net earnings per share amounts)

	Quarter Ended March 31		
	2002	2001	
<b>Revenues:</b>			
Commissions and fees .....	\$ 60	\$ 78	\$
Interest .....	21	59	
Trust expense reimbursement .....	11	34	
Gain on sale of real estate .....	36	945	
Gain on sale of equity securities .....	--	1	
Other .....	--	15	
	-----	-----	
	128	1,132	
	-----	-----	
<b>Expenses:</b>			
Personnel .....	92	186	
Other operating .....	99	125	
Other than temporary losses on equity securities .....	41	--	
	-----	-----	
	232	311	
	-----	-----	
Income (loss) from operations before federal income tax .....	(104)	821	
Federal income tax expense .....	--	(287)	
	-----	-----	
Net income (loss) .....	(104)	534	
	-----	-----	
<b>Other comprehensive income (loss), net of tax:</b>			
Unrealized gains (losses) on equity securities:			
Unrealized holding gains (losses) arising during period ....	37	(5)	
Add: reclassification adjustment for other than temporary losses included in net income .....	27	--	

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

Less: reclassification adjustment for gains included in net income .....	---	(1)	---
Other comprehensive income (loss), net of tax .....	64	(6)	---
Comprehensive income (loss) .....	\$ (40)	\$ 528	\$
Basic earnings (loss) per share:			
Net income (loss) .....	\$ (0.02)	\$ 0.09	\$
Average number of shares .....	6,000	6,000	
Diluted earnings (loss) per share:			
Net income (loss) .....	\$ (0.02)	\$ 0.09	\$
Average number of shares .....	6,144	6,132	

See notes to consolidated financial statements.

3

STATEMENTS OF CONSOLIDATED CASH FLOWS (Unaudited)

SIENA HOLDINGS, INC. AND SUBSIDIARIES  
(in thousands)

	Nine Months
	-----
	2002
	-----
Operating activities:	
Net income (loss) .....	\$ (208)
Adjustments to reconcile net income (loss) to net cash used by operations:	
Federal income tax expense charged to additional paid-in capital due to the utilization of pre-reorganization tax attributes .....	---
Other than temporary losses on equity securities .....	41
Gain on sale of real estate .....	(36)
Compensation expense for stock options .....	12
Decrease (increase) in current accounts receivables and prepaid expenses ..	70
Decrease in current accounts payable and accrued expenses .....	(14)
Increase in unearned income .....	125

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

Decrease in long term accrued medical insurance premiums .....	(41)
Increase in long term deferred compensation and fees .....	32
Net cash used by operating activities .....	(19)
Investing activities:	
Purchases of equity securities .....	(4)
Sale of equity securities .....	--
Sale of real estate .....	36
Increase in investment in real estate .....	(74)
Net cash provided (used) by investing activities .....	(42)
Net increase (decrease) in cash and cash equivalents .....	(61)
Cash and cash equivalents at beginning of period .....	5,914
Cash and cash equivalents at end of period .....	\$ 5,853
Cash payments for:	
Interest .....	\$ --
Federal income tax .....	\$ 21

(table continued on following page)

STATEMENTS OF CONSOLIDATED CASH FLOWS (Unaudited) - continued

SIENA HOLDINGS, INC. AND SUBSIDIARIES  
(in thousands)

Non-cash transactions:	Nine Mo
Changes to additional paid-in-capital:	-----
Increase to additional paid-in-capital due to a decrease in valuation allowance for pre-reorganization deferred tax assets related to other than temporary losses and unrealized holding gains on investments in equity securities .....	2
Federal income tax expense credited to additional paid-in-capital due to a	-----

## Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

decrease in valuation allowance for pre-reorganization deferred tax assets .....

Decrease to additional paid-in-capital due to an increase in valuation allowance for pre-reorganization deferred tax assets as a result of a decrease in the valuation of investment in real estate .....

Compensation expense credited to additional paid-in-capital related to stock options .....

See notes to consolidated financial statements.

5

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

#### SIENA HOLDINGS, INC. AND SUBSIDIARIES

MARCH 31, 2002

#### NOTE A -- BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Siena Holdings, Inc. ("SHI"), formerly Lomas Financial Corporation ("LFC"), and its subsidiaries (collectively, the "Company"). SHI's wholly-owned, principal subsidiaries are Siena Housing Management Corp. and LLG Lands, Inc. Prior to October 1, 1996, SHI's wholly-owned principal subsidiary was Lomas Mortgage USA, Inc. ("LMUSA"), now known as Nomas Corp. ("Nomas"). As a result of the confirmation of LMUSA's Chapter 11 reorganization plan, the Company's interest in LMUSA was extinguished effective October 1, 1996. LFC's plan of reorganization was confirmed on October 4, 1996, but not effective until March 1997.

In accordance with the American Institute of Certified Public Accountants' Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code", the Company adopted fresh-start accounting as of March 31, 1997, after all material conditions required by the Plan were satisfied. Since April 1, 1997, the Company's financial statements have been prepared as if it is a new reporting entity. Under fresh-start accounting, all assets and liabilities were restated to reflect their reorganization value, which approximated fair value at the date of reorganization. The Company's management and representatives of the creditors' committee concluded that, based on the fact that the Company has historically incurred losses from operations and has projected minimal future operating profits, the reorganization value of the Company (the fair value of the Company before considering liabilities) was equivalent to the fair value of the Company's tangible assets and that no other intrinsic value existed. As a result, all assets and liabilities were stated at their fair value.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The preparation of financial statements in

## Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Certain reclassifications have been made to prior quarters' financial statements to conform to the current presentation. Operating results for the quarter and nine months are not necessarily indicative of the results that may be expected for the fiscal year. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended June 30, 2001.

### NOTE B -- REORGANIZATION

On October 10, 1995, LFC, two subsidiaries of LFC and LMUSA (collectively the "Debtor Corporations") filed separate voluntary petitions for reorganization under Chapter 11 of the Federal Bankruptcy Code in the District of Delaware. The petitioning subsidiaries were Lomas Information Systems, Inc. ("LIS") and Lomas Administrative Services, Inc. ("LAS"). The Debtor Corporations filed two separate plans of reorganization with the Bankruptcy Court. An order confirming the second amended joint plan of reorganization filed on October 4, 1996 for LFC, LIS and LAS (the "Joint Debtors") and a stipulation and order among the Joint Debtors and the appointed statutory committee of unsecured creditors of LFC (the "LFC Creditors' Committee") regarding technical modifications to the plan of reorganization and confirmation order filed on January 27, 1997 together with the second amended joint plan of reorganization filed on July 3, 1996 are collectively referred to herein as the "Joint Plan". The Joint Plan was confirmed on October 4, 1996, but not effective until March 7, 1997, after certain conditions were either met or waived by the LFC Creditors' Committee.

6

The Joint Plan provided for a transfer by the Company of \$3 million in cash to partially fund a litigation trust to pursue third-party claims pursuant to the LFC/LMUSA joint litigation trust agreement among LFC and its subsidiaries and LMUSA, dated March 6, 1997 (the "LFC/LMUSA Litigation Trust"). Subject to certain exceptions, the LFC Creditors' Trust (as defined herein) and the creditors' trust established pursuant to the LMUSA Plan will receive sixty and forty percent, respectively, of net proceeds from litigation. In March 2000, the LFC Creditors' Trust received \$7.1 million of net proceeds from the LFC/LMUSA Litigation Trust resulting from litigation. There can be no assurance that the LFC/LMUSA Litigation Trust will produce any additional proceeds which will benefit the Creditors Trust and former creditors.

The Class 3 general unsecured creditors were to receive a combination of cash and new common stock as settlement of their allowed claim, pursuant to the Joint Plan. The total of cash distributions through March 31, 2002 was \$32.3 million. As provided for in the Joint Plan and a decision of the LFC Creditors' Committee, 4,000,000 shares of the new common stock were issued by the stock transfer agent on the initial distribution date of November 12, 1997. For balance sheet presentation and earnings (loss) per share, the 4,000,000 shares were considered issued as of April 1, 1997. The process by the stock distribution agent resulted in 3,822,121 shares of common stock actually distributed to former creditors through March 7, 1999, the deadline for exchanging predecessor company bonds for common stock. In the second quarter of fiscal year 2000, the stock distribution agent distributed the final 177,879 shares, including shares held for disputed claims, to all allowed creditors that had received prior stock distributions.

The amounts ultimately distributed to the former creditors will be solely dependent on the success of the Company, the amounts realized from the



## Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

collection of assets and the settlement of liabilities for both the Creditors' Trust and the LFC/LMUSA Litigation Trust.

On November 5, 1998, the Company received \$2.2 million from the Company's Chairman of the Board ( \$2.102 million net of stock offering expenses) in exchange for 2 million shares of the Company's common stock, as approved by the Company's Board of Directors on September 23, 1998. This transaction increased the number of outstanding shares of common stock to 6 million. THE 6,000,000 SHARES OF THE NEW COMMON STOCK ARE RESTRICTED IF THE EFFECT OF A TRANSFER WOULD RESULT IN AN OWNERSHIP INCREASE TO 4.5 PERCENT OR ABOVE OF THE TOTAL OUTSTANDING SHARES OR FROM 4.5 PERCENT TO A GREATER PERCENTAGE OF THE TOTAL OUTSTANDING SHARES, WITHOUT PRIOR APPROVAL BY THE BOARD OF DIRECTORS AS DESCRIBED IN THE RESTATED CERTIFICATE OF INCORPORATION.

THE LFC CREDITORS TRUST AND ANY PROCEEDS FROM THE LFC/LMUSA LITIGATION TRUST ARE SOLELY FOR THE BENEFIT OF THE FORMER CREDITORS OF THE JOINT DEBTORS. STOCKHOLDERS WILL NOT BENEFIT FROM THESE TRUSTS UNLESS THEY HELD CLASS 3 - GENERAL UNSECURED CLAIMS AS DEFINED IN THE JOINT PLAN. SEE "NOTE C-- CREDITORS' TRUST".

### NOTE C -- CREDITORS' TRUST

The Joint Plan established a creditors' trust (the "Creditors' Trust") in which the Company serves as trustee. The Creditors' Trust holds the non-reorganized assets of the Company in trust pending their disposition and/or distribution to the creditors in accordance with the terms of the Joint Plan. The Creditors' Trust is organized for the sole purpose of liquidating the non-reorganized assets including proceeds, if any from the LFC/LMUSA Litigation Trust. The original termination date of the Creditors' Trust was March 7, 2002, however, a 60-day extension was requested and granted by the Bankruptcy Court. The Company expects that the remaining assets will be liquidated and final distributions will be made before June 30, 2002, and the Creditors' Trust will be terminated. The assets and liabilities of the Creditors' Trust are not reflected in the accompanying Consolidated Balance Sheets as the Company is not the beneficiary of the Trust. Accordingly, revenues and expenses related to the Creditors' Trust assets and liabilities since April 1, 1997, are not reflected in the accompanying Statements of Consolidated Operations and Comprehensive Income (Loss). The allocation of costs between the Creditors' Trust and the Company is based on management's estimate of each entity's proportional share of costs. Gains and losses from the Creditors' Trust are solely for the former creditors' benefit and the Company has no risk of loss on the assets or liabilities. The amounts ultimately distributed to the former creditors will be solely dependent on the success of the Company, the amounts realized from the collection of assets and settlement of liabilities for both the Creditors' Trust

7

and the LFC/LMUSA Litigation Trust. Stockholders who are not former creditors of the Joint Debtors are not beneficiaries of the Creditors' Trust. There can be no assurance that the LFC/LMUSA Litigation Trust will produce any proceeds which will benefit the Creditors' Trust and former creditors.

The Company charged to the Creditors' Trust expenses of \$11,000 and \$68,000 for the quarter and nine months ended March 31, 2002, respectively, and \$34,000 and \$360,000 for the quarter and nine months ended March 31, 2001, respectively, reported as trust expense reimbursement on the Company's Statements of Consolidated Operations and Comprehensive Income (Loss). The charges in the second quarter of fiscal year 2001 included \$212,000 for success bonuses paid to the Company pursuant to existing compensation plans for the directors and officers. The bonuses were paid from proceeds received by the

## Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

Creditors' Trust in March 2000 from the LFC/LMUSA Litigation Trust resulting from litigation. The remainder of the reimbursement consisted of an overhead allocation from the Company, based upon management's estimate of resources used by the Creditors' Trust. The allocation of overhead to the Creditors' Trust continues to decrease as expected during fiscal year 2002 as remaining assets are liquidated and will cease when final distributions are made and the Creditors' Trust is terminated. The Company expects the final distributions will be made before June 30, 2002.

THE LFC CREDITORS TRUST AND ANY PROCEEDS FROM THE LFC/LMUSA LITIGATION TRUST ARE SOLELY FOR THE BENEFIT OF THE FORMER CREDITORS OF THE JOINT DEBTORS. STOCKHOLDERS WILL NOT BENEFIT FROM THESE TRUSTS UNLESS THEY HELD CLASS 3 - GENERAL UNSECURED CLAIMS AS DEFINED IN THE JOINT PLAN.

### NOTE D -- INVESTMENT IN REAL ESTATE

The Company's investment in real estate, owned by LLG, consists of 162.1 acres (approximately 138.0 acres net of flood plain) of unimproved land in Allen, Texas (the "Allen property") as of March 31, 2002. The southern boundary of the Allen property is the Exchange Parkway, which provides access to the property from Central Expressway on the west and from Highway 5 on the east. As of March 31, 2002, the Allen property included five tracts of land: one tract of approximately 31.9 net acres zoned multi-family, one tract of approximately 77.2 net acres zoned light industrial (formerly single-family), two tracts of approximately 24.2 net acres zoned commercial and one tract of 4.6 net acres zoned residential. In the fourth quarter of fiscal year 2001, five acres of the multi-family property was successfully re-zoned as light industrial. With a continuing view towards maximizing shareholder value, management is attempting to have the one residential tract re-zoned as commercial.

On October 30, 2000, the Company completed the sale of approximately 5.6 acres of one of the commercial properties to 75 Exchange Partners, LP, an unaffiliated partnership. Net cash proceeds from the sale totaled \$1.204 million and the Company recorded a gain on sale of real estate of \$828,000 in the second quarter of fiscal year 2001, as previously reported in the Company's Statements of Consolidated Operations and Comprehensive Income (Loss).

On February 23, 2001, the Company completed the sale of approximately 17.3 acres of property zoned light industrial to Crow Family Holdings Industrial Texas, LP ("Crow Family Holdings"), an unaffiliated partnership. Net cash proceeds from the sale totaled \$1.251 million and the Company recorded a gain on sale of real estate of \$945,000 in the quarter ended March 31, 2001, as previously reported in the Company's Statements of Consolidated Operations and Comprehensive Income (Loss). In addition, Crow Family Holdings acquired outstanding options, which expire 18 months from the original sale date, to purchase substantially all the remaining light industrial property. On January 16, 2002, the Company received additional cash proceeds of \$36,000 from the real estate sale in February 2001, representing the final settlement and proration of rollback property taxes, reported as additional gain on sale of real estate in the Company's Statements of Consolidated Operations and Comprehensive Income (Loss).

On February 22, 2002, the Company and Crow Family Holdings agreed to the First Amendment to Sale Contract ("First Amendment") which extends the closing date on the sale of 14.25 acres of property zoned light industrial to on or before August 22, 2002. In addition, the First Amendment extends the option period to August 22, 2002 on all outstanding options. The Company received a \$125,000 non-refundable deposit, which is included in unearned income on the Company's Consolidated Balance Sheets as of March 31, 2002. In the event a sale is completed by August 23,

2002, \$95,000 of the deposit is to be applied to the purchase price. There is no guarantee that any sales will be consummated.

Based on the property sales described above, continuing negotiations on other parcels and improved market conditions, management believes that the Company would be able to sell the remaining Allen property for a value in excess of the tax basis. As a result, the Company reported a net deferred tax asset balance of \$1.908 million as of March 31, 2002 and June 30, 2001, included in long term assets on the Company's Consolidated Balance Sheets. Any tax benefits recognized related to the valuation allowance for pre-reorganization deferred tax assets as of March 31, 2002 will be allocated to additional paid-in capital.

The Company is involved in discussions and or entered into tentative agreements to sell certain parcels of land, which it, in its best judgement, considers to be reasonable and in the interests of its shareholders. However, there can be no assurance that these or any future discussions and or tentative agreements may lead to any real estate transactions, and when such transactions might occur. These tentative agreements may not be completed due to various uncertainties associated with ongoing negotiations and buyer due diligence contingencies. Based on management's most recent estimates, any sales that might result from these discussions and or tentative agreements as well as options described above would result in a gain on sale for financial reporting purposes.

#### NOTE E -- ASSISTED CARE FACILITY MANAGEMENT AGREEMENT

Siena Housing Management, Inc. ("SHM") manages and maintains an assisted care facility in Houston, Texas under a management agreement into which it entered on June 27, 1977 (the "Management Agreement") with Treemont, Inc. ("Treemont"). Under this agreement, SHM receives a fee based on gross revenues and net income of Treemont. Refer to the Company's annual report on Form 10-K for the fiscal year ended June 30, 2001, for more information on the Company's assisted care business and management contract.

On January 4, 2001, the Company agreed to the First Amendment to Management Agreement (the "First Amendment") with Treemont which specifies the terms for a potential sale of the Treemont facility. SHM consented that the owners of Treemont may sell the facility with absolute discretion and terminate the Management Agreement in exchange for a graduated percentage of the net proceeds (as defined) from the sale of the facility. The owners of Treemont agreed to provide written notice of the commencement of any negotiations. During the second quarter of fiscal year 2002, SHM was notified of the commencement of negotiations by the Treemont owners with a prospective buyer. However, there can be no assurance that these or any future negotiations will lead to a sale of the facility. If a sale transaction is ultimately concluded, SHM shall not be obligated to terminate the Management Agreement if SHM does not receive at least \$2 million as its share of the proceeds.

#### NOTE F -- INVESTMENTS IN EQUITY SECURITIES

Investments in equity securities are classified as available-for-sale and are held by the Company's real estate subsidiary, LLG Lands, Inc. ("LLG"). As of March 31, 2002, the cost and fair value of the securities based on quoted market prices were reported as \$124,000 and \$204,000, respectively. Unrealized gains or losses are included, net of tax, in accumulated other comprehensive income or loss, a component of stockholders' equity as reported on the Company's Consolidated Balance Sheets. Realized gains or losses and other than temporary losses are included on the Company's Consolidated Statements of Operations and Comprehensive Income (Loss).

## NOTE G -- STOCKHOLDERS' EQUITY

As of March 31, 2002 and June 30, 2001, the Company had 15,000,000 shares of \$.10 par value common stock authorized, with 6,000,000 shares issued and outstanding.

SHI and its subsidiaries decreased the valuation allowance for pre-reorganization deferred tax assets by \$36,000 relating to other than temporary losses and unrealized holding gains on investments in equity securities for the nine months ended March 31, 2002. The Company also recorded \$12,000 in compensation expense in the nine months ended March 31, 2002, related to stock options which increased additional paid-in-capital by \$12,000, resulting in a net increase to additional paid-in-capital of \$48,000 for the nine months ended March 31, 2002.

For the nine months ended March 31, 2001, the Company decreased the pre-reorganization deferred tax assets by \$517,000, as a result of federal income tax expense and, also, decreased the valuation allowance for pre-reorganization deferred tax assets by \$517,000 resulting in a corresponding increase to additional paid-in-capital. The Company also increased the valuation allowance for pre-reorganization deferred tax assets and decreased additional paid-in-capital by \$102,000 as a result of a decrease in the valuation of the investment in real estate. The Company also recorded \$12,000 in compensation expense in the nine months ended March 31, 2001, related to stock options which increased additional paid-in-capital by \$12,000. These transactions resulted in a net increase to additional paid-in-capital of \$427,000 for the nine months ended March 31, 2001. Future utilization of these pre-reorganization tax attributes on a consolidated basis will result in adjustments to additional paid-in capital.

The Company has investments in available-for-sale equity securities which are carried at fair value based on quoted market prices. Unrealized gains and losses are included, net of tax, in accumulated other comprehensive loss, a component of stockholders' equity as reported on the Company's Consolidated Balance Sheets.

The Company, as of March 31, 2002 and June 30, 2001, had 1,000,000 shares of \$1.00 par value preferred stock authorized, with 0 shares issued and outstanding.

## NOTE H -- DEFERRED TAX ASSETS

SHI and its subsidiaries had no gross deferred tax liabilities and approximately \$95.0 million in gross deferred tax assets as of March 31, 2002, subject to an offsetting valuation allowance of approximately \$93.1 million. Based on recent real estate activity and improved market conditions (see "Note E--Investment in Real Estate"), management believes that the Company would be able to sell the remaining Allen property for a value in excess of the tax basis. The Company reported a net deferred tax asset balance of \$1.908 million as of March 31, 2002, and June 30, 2001, respectively, included in long term assets on the Company's Consolidated Balance Sheets. Essentially all of this valuation allowance is considered to be attributable to pre-reorganization tax attributes. Accordingly, future utilization of these pre-reorganization tax attributes on a consolidated basis will result in adjustments to additional paid-in capital.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the

## Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences become deductible. Management considers the reversal of any deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Management believes that it is more likely than not that the Company will realize the benefit of these deferred tax assets, net of the existing valuation allowance as of March 31, 2002.

### NOTE I -- EARNINGS (LOSS) PER SHARE

Earnings (loss) per common share were determined using the weighted average shares issued. Effective December 1, 1997 the Company granted options under the Siena Holdings, Inc. Nonqualified Stock Option Agreements (the "Nonqualified Stock Option Agreements"). The effects of outstanding options are included in the calculation of diluted earnings (loss) per common share to the extent that they are dilutive to earnings or not antidilutive.

10

### NOTE J -- ACCOUNTING STANDARDS TO BE ADOPTED

Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, addresses the financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. This statement supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of. SFAS No. 144 requires, among other things, that impairment losses resulting from the initial application of its provision for long-lived assets to be held and used be reported in the period in which the recognition criteria are initially applied and met based on the facts and circumstances existing at that date. This statement, like SFAS No. 121, requires consideration of the continuing effect of events or changes in circumstances that occurred prior to initial application of SFAS No. 144. The effect of adopting SFAS No. 144 is not expected to be material. Adoption is required by all companies no later than fiscal year beginning after December 15, 2001.

### NOTE K -- INDUSTRY SEGMENT DATA OF OPERATIONS

The Company has two reportable segments: (1) assisted care management, which receives a fee for managing and maintaining an assisted care facility in Houston, Texas, and (2) real estate management, sale and development. The accounting policies of the segments are the same as those of the Company. Refer to the "Significant Accounting Policies" footnote as reported in the annual report on Form 10-K for the year ended June 30, 2001, for more information. The Company's management evaluates performance of each segment based on profit and loss from operations excluding allocation of corporate overhead expenses and interest income.

The following table summarizes the Company's identifiable assets by segment as of March 31, 2002, and June 30, 2001 (in thousands):

March 31, 2002  
-----

Identifiable assets:

Assisted care facility management (including receivable from

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

parent company eliminated in consolidation) .....	\$ 427
Real estate .....	6,868
	-----
	7,295
	-----
Reconciling items:	
Corporate cash, receivables and prepaid expenses (including receivable from subsidiary eliminated in consolidation) ...	3,895
Deferred tax assets--net .....	1,908
Elimination of intercompany receivables .....	(347)
	-----
Total assets per Consolidated Balance Sheets .....	\$ 12,751
	=====

(remainder of page intentionally left blank)

11

The following table summarizes the Company's segment data of operations for the quarters and nine months ended March 31, 2002 and 2001 (in thousands):

	Quarter Ended March 31		Nine Months Ended March 31	
	2002	2001	2002	2001
	-----	-----	-----	-----
Revenues:				
Assisted care management .....	\$ 60	\$ 78	\$ 190	\$ 20
Real estate .....	43	960	65	1,79
	-----	-----	-----	-----
	103	1,038	255	2,00
	-----	-----	-----	-----
Reconciling items:				
Corporate interest income .....	14	45	59	16
Trust expense reimbursement .....	11	34	68	36
Other corporate revenue .....	--	15	7	1
	-----	-----	-----	-----
	25	94	134	54
	-----	-----	-----	-----
Total revenues per Statement of Consolidated Operations and Comprehensive Income (Loss) ..	\$ 128	\$ 1,132	\$ 389	\$ 2,54
	=====	=====	=====	=====
Operating income (loss):				

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

Assisted care management .....	\$ 34	\$ 48	\$ 112	\$ 12
Real estate .....	1	958	20	1,79
	-----	-----	-----	-----
	35	1,006	132	1,91
	-----	-----	-----	-----
Reconciling items:				
Corporate interest income .....	14	45	59	16
Trust expense reimbursement .....	11	34	68	36
Unallocated corporate expenses .....	(164)	(279)	(474)	(92)
Other .....	--	15	7	1
	-----	-----	-----	-----
	(139)	(185)	(340)	(38)
	-----	-----	-----	-----
Income (loss) from operations before federal income tax per Statement of Consolidated Operations and Comprehensive Income (Loss) ..	\$ (104)	\$ 821	\$ (208)	\$ 1,53
	=====	=====	=====	=====

12

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

Results of Operations

Statements contained herein that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including but not limited to statements regarding the Company's expectations, hopes, beliefs, intentions or strategies regarding the future. Actual results could differ materially from those projected in any forward-looking statements as a result of a number of factors, including those detailed in this Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as those set forth elsewhere herein. The forward-looking statements are made as of the date of these financial statements and the Company undertakes no obligation to update or revise the forward-looking statements, or to update the reasons why actual results could differ materially from those projected in the forward-looking statements.

The operating results of the Company during the quarters and nine months ended March 31, 2002 and 2001, were as follows (in thousands):

	Quarter Ended March 31		Nine Month March
	2002	2001	2002
	-----	-----	-----

Operating income:

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

Assisted care management .....	\$ 34	\$ 48	\$ 112
Real estate .....	1	958	20
	-----	-----	-----
	35	1,006	132
	-----	-----	-----
Other income and expenses:			
Interest income .....	14	45	59
Trust expense reimbursement income .....	11	34	68
Unallocated corporate expenses .....	(164)	(279)	(474)
Other .....	--	15	7
	-----	-----	-----
	(139)	(185)	(340)
	-----	-----	-----
Income (loss) from operations before federal income tax ..	(104)	821	(208)
Federal income tax expense .....	--	287	--
	-----	-----	-----
Net income (loss) .....	\$ (104)	\$ 534	\$ (208)
	=====	=====	=====

Assisted Care Management. The decrease in the profitability of the assisted care management operations, as compared to the same periods in the prior year, is primarily attributable to the decreased management fee received by Siena Housing Management, Inc. ("SHM"), a wholly-owned subsidiary of the Company. SHM manages and maintains an assisted care facility in Houston, Texas under a management agreement into which it entered on June 27, 1977 (the "Management Agreement") with Treemont, Inc. ("Treemont"). Under the Management Agreement, SHM receives a fee based on gross revenues and net income of Treemont. Management fee income was \$16,000 and \$18,000 lower in the in the quarter and nine months ended March 31, 2002, respectively, as compared to the same periods in fiscal year 2001, primarily due to higher insurance and other expenses reported by Treemont.

In the second quarter of fiscal year 2002, Treemont reported increases of approximately 160% in insurance premiums as compared to insurance payments made the prior year. Treemont will implement certain facility rate increases, but the Company can not project the impact, if any, this will have on the occupancy levels at the facility. The Company can not project the effect that this will have on the management fee income received from Treemont by SHM.

On January 4, 2001, the Company agreed to the First Amendment to Management Agreement (the "First Amendment") with Treemont which specifies the terms for a potential sale of the Treemont facility. SHM consented that

the owners of Treemont may sell the facility with absolute discretion and terminate the Management Agreement in exchange for a graduated percentage of the net proceeds (as defined) from the sale of the facility. The owners of Treemont agreed to provide written notice of the commencement of any negotiations. During the second quarter of fiscal year 2002, SHM was notified of the commencement of negotiations by the Treemont owners with a prospective buyer. However, there can



## Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

be no assurance that these or any future negotiations will lead to a sale of the facility. If a sale transaction is ultimately concluded, SHM shall not be obligated to terminate the Management Agreement if SHM does not receive at least \$2 million as its share of the proceeds.

The Management Agreement or the First Amendment are not shown as an asset on the Consolidated Balance Sheets of the Company because there can be no assurance that the contract will continue in effect for an extended period and the uncertainties inherent in the potential sale of the facility.

Real Estate. The Company's investment in real estate, owned by LLG, consists of 162.1 acres (approximately 138.0 acres net of flood plain) of unimproved land in Allen, Texas (the "Allen property") as of March 31, 2002. The southern boundary of the Allen property is the Exchange Parkway, which provides access to the property from Central Expressway on the west and from Highway 5 on the east. As of March 31, 2002, the Allen property included five tracts of land: one tract of approximately 31.9 net acres zoned multi-family, one tract of approximately 77.2 net acres zoned light industrial (formerly single-family), two tracts of approximately 24.2 net acres zoned commercial and one tract of 4.6 net acres zoned residential. In the fourth quarter of fiscal year 2001, five acres of the multi-family property was successfully re-zoned as light industrial. With a continuing view towards maximizing shareholder value, management is attempting to have the one residential tract re-zoned as commercial.

On October 30, 2000, the Company completed the sale of approximately 5.6 acres of one of the commercial properties to 75 Exchange Partners, LP, an unaffiliated partnership. Net cash proceeds from the sale totaled \$1.204 million and the Company recorded a gain on sale of real estate of \$828,000 in the second quarter of fiscal year 2001, as previously reported in the Company's Statements of Consolidated Operations and Comprehensive Income (Loss).

On February 23, 2001, the Company completed the sale of approximately 17.3 acres of property zoned light industrial to Crow Family Holdings Industrial Texas, LP ("Crow Family Holdings"), an unaffiliated partnership. Net cash proceeds from the sale totaled \$1.251 million and the Company recorded a gain on sale of real estate of \$945,000 in the quarter ended March 31, 2001, as previously reported in the Company's Statements of Consolidated Operations and Comprehensive Income (Loss). In addition, Crow Family Holdings acquired outstanding options, which expire 18 months from the original sale date, to purchase substantially all the remaining light industrial property. On January 16, 2002, the Company received additional cash proceeds of \$36,000 from the real estate sale in February 2001, representing the final settlement and proration of rollback property taxes, reported as additional gain on sale of real estate in the Company's Statements of Consolidated Operations and Comprehensive Income (Loss).

On February 22, 2002, the Company and Crow Family Holdings agreed to the First Amendment to Sale Contract ("First Amendment") which extends the closing date on the sale of 14.25 acres of property zoned light industrial to on or before August 22, 2002. In addition, the First Amendment extends the option period to August 22, 2002 on all outstanding options. The Company received a \$125,000 non-refundable deposit, which is included in unearned income on the Company's Consolidated Balance Sheets as of March 31, 2002. In the event a sale is completed by August 23, 2002, \$95,000 of the deposit is to be applied to the purchase price. There is no guarantee that any sales will be consummated.

Based on the property sales described above, continuing negotiations on other parcels and improved market conditions, management believes that the Company would be able to sell the remaining Allen property for a value in excess of the tax basis. As a result, the Company reported a net deferred tax asset balance of \$1.908 million as of March 31 and June 30, 2001, included in long

## Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

term assets on the Company's Consolidated Balance Sheets. Any tax benefits recognized related to the valuation allowance for pre-reorganization deferred tax assets as of March 31, 2002 will be allocated to additional paid-in capital.

The Company is involved in discussions and or entered into tentative agreements to sell certain parcels of land, which it, in its best judgement, considers to be reasonable and in the interests of its shareholders. However, there can

14

be no assurance that these or any future discussions and or tentative agreements may lead to any real estate transactions, and when such transactions might occur. These tentative agreements may not be completed due to various uncertainties associated with ongoing negotiations and buyer due diligence contingencies. Any sales that might result from these discussions and or tentative agreements as well as options described above would result in a gain on sale for financial reporting purposes.

The real estate subsidiary reported operating income for the quarter and nine months ended March 31, 2002 of \$1,000 and \$20,000, respectively, as compared to an operating income of \$958,000 and \$1,796,000 for the quarter and nine months ended March 31, 2001, respectively. The third quarter ended March 31, 2002, included an additional \$36,000 of gain on sale of real estate related to the final settlement and proration of rollback property taxes discussed above. This gain was offset by a \$41,000 other than temporary loss on equity securities held by the real estate subsidiary. The prior year periods included the gains on sale of real estate discussed above.

Improvement costs of \$8,000 and \$74,000 related to developing the property were capitalized during the quarter and nine months ended March 31, 2002, respectively, in accordance with the Company's capitalization policy, as compared to \$144,000 and \$287,000 of costs that were capitalized during the quarter and nine months ended March 31, 2001, respectively. The improvement costs in the prior year also included work performed related to the flood plain recovery project that was primarily completed during the second quarter of fiscal year 2001. Costs related to the re-zoning, marketing and developing the property will continue, some of which may be capitalized.

Other Income. The Company reported trust expense reimbursement income of \$11,000 and \$68,000 for the quarter and nine months ended March 31, 2002, respectively, and \$34,000 and \$360,000 for the quarter and nine months ended March 31, 2001, respectively, reported as trust expense reimbursement on the Company's Statements of Consolidated Operations and Comprehensive Income (Loss). The charges in the second quarter of fiscal year 2001 included \$212,000 for success bonuses paid to the Company pursuant to existing compensation plans for the directors and officers. The bonuses were paid from proceeds received by the Creditors' Trust in March 2000 from the LFC/LMUSA Litigation Trust resulting from litigation. The remainder of the reimbursement consisted of an overhead allocation from the Company, based upon management's estimate of resources used by the Creditors' Trust. The allocation of overhead to the Creditors' Trust continues to decrease as expected during fiscal year 2002 as remaining assets are liquidated and will cease when final distributions are made and the Creditors' Trust is terminated. The Company expects the final distributions will be made before June 30, 2002.

Corporate interest income of \$14,000 and \$59,000 for the quarter and nine months ended March 31, 2002, respectively, as compared to \$45,000 and \$168,000 for the quarter and nine months ended March 31, 2001, respectively, decreased as a result of lower interest rates.

## Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

Other Expenses. Unallocated corporate expenses decreased by \$115,000 and \$453,000 for the quarter and nine months ended March 31, 2002 from the same periods in the prior year. The decrease is primarily due to the success bonuses in the amount of \$113,000 and \$424,000 paid to directors and officers pursuant to existing compensation plans for the quarter and nine months ended March 31, 2001, respectively. As discussed above, the Company paid bonuses totaling \$212,000 to the directors and officers, which were reimbursed by the Creditors' Trust and included in other income. In addition, bonuses of \$212,000 were paid based on the gain recognized on the sale of real estate. Other variances of unallocated corporate expenses include lower professional, legal and accounting fees.

15

Other Significant Items. As discussed in the Company's annual report on Form 10-K for the fiscal year ended June 30, 2001, the stockholders of SHI had approved a proposal at the annual meeting on December 15, 2000, to amend the Company's certificate of incorporation giving the Board, in its sole discretion, the authority to consummate a reverse stock split followed by a forward stock split of the Company's Common Stock. The Board, using its sole discretion, elected not to present these transactions for voting by the stockholders at the most recent annual meeting on December 14, 2001.

### Liquidity and Capital Resources

As of March 31, 2002, the Company has accounts payable and accrued expenses which will be paid from current operating cash available as of March 31, 2002.

### Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Some assets and liabilities by their nature are more subject to estimates and assumptions. For the Company, the amount of the net deferred tax asset balance reported on the Company's Consolidated Balance Sheets is based on management's most recent estimated value of the investment in real estate in excess of the related tax basis. Such estimate could change in the future based on the occurrence of one or more future events.

The Company's liability for accrued medical insurance premiums was estimated using a life expectancy age of 90, an annual health cost care increase rate of approximately 5% and a discount rate of approximately 6.5%. Such estimate could change in the future based on the occurrence of one or more future events.

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

On December 15, 2000, the Company's board of directors authorized the use of up to 20% of the Company's cash for the investment in equity securities, with no more than 50% invested in any one company. The investment in equity securities exposes the Company to general market risks. As of March 31, 2002, the amount invested in equity securities was \$124,000 with a fair market value of \$204,000. The securities are classified as available-for-sale and reported on

## Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

the Company's Consolidated Balance Sheets at fair market value with the unrealized holding loss included, net of tax, in accumulated other comprehensive loss, a component of stockholders' equity. Realized gains or losses and other than temporary losses are reported on the Company's Consolidated Statements of Operations and Comprehensive Income (Loss).

16

### PART II -- OTHER INFORMATION

#### Item 3. Defaults Upon Senior Securities.

Refer to the Company's annual report on Form 10-K for the year ended June 30, 2001, for information regarding defaults by the Company relating to the debt obligations of the Predecessor Company.

#### Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

None.

(b) Reports on Form 8-K:

None.

17

### 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.

SIENA HOLDINGS, INC.

-----  
(Registrant)

Date: May 8, 2002

By: /S/ W. JOSEPH DRYER

-----  
President

Date: May 8, 2002

By: /S/ W. JOSEPH DRYER

-----  
Principal Accounting Officer