

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

SIENA HOLDINGS INC
Form 10-Q
February 12, 2001

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 December 31, 2000

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

75-1043392

(State or other jurisdiction of
incorporation or organization)

(I.R.S. employer
identification no.)

5068 West Plano Parkway, Suite 300, Plano, Texas

75093

(Address of principal executive offices)

(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.

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of each of the issuer's classes of common stock as of February 1, 2001: Common Stock, \$.10 par value -- 6,000,000 shares.

SIENA HOLDINGS, INC. AND SUBSIDIARIES

FORM 10-Q FOR THE QUARTER ENDED DECEMBER 31, 2000

INDEX

	Page

PART I -- FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited)	
Consolidated Balance Sheets - December 31, 2000 and June 30, 2000 .	2
Statements of Consolidated Operations and Comprehensive Income -	
Quarters and Six Months Ended December 31, 2000 and 1999	3
Statements of Consolidated Cash Flows - Six Months Ended	
December 31, 2000 and 1999	4
Notes to Consolidated Financial Statements	5
Item 2. Management's Discussion and Analysis of Financial Condition	
and Results of Operations	
Results of Operations	12
Liquidity and Capital Resources	15
Item 3. Quantitative and Qualitative Disclosures About Market Risk	15
PART II -- OTHER INFORMATION	
Item 1. Legal Proceedings	15
Item 3. Defaults Upon Senior Securities	15
Item 4. Submission of Matters to a Vote of Security Holders	15
Item 6. Exhibits and Reports on Form 8-K	16

1

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSOLIDATED BALANCE SHEETS

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

December 31, 2000

June 30, 2000

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

	(unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,950	\$ 4,088
Investments in equity securities	91	--
Receivables	124	112
Prepaid expenses	208	42
	-----	-----
	5,373	4,242
	-----	-----
Long Term Investments:		
Investment in real estate	4,717	4,949
Deferred tax assets - net	1,526	1,441
	-----	-----
	6,243	6,390
	-----	-----
Total Assets	\$ 11,616	\$ 10,632
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 158	\$ 161
Long Term Liabilities:		
Accrued medical insurance premiums	488	516
Deferred compensation and fees	309	102
	-----	-----
	797	618
	-----	-----
	955	779
	-----	-----
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	600
Additional paid-in capital	9,545	9,205
Accumulated earnings	511	48
Accumulated other comprehensive income	5	--
	-----	-----
	10,661	9,853
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 11,616	\$ 10,632
	=====	=====

See notes to consolidated financial statements.

STATEMENTS OF CONSOLIDATED OPERATIONS AND
COMPREHENSIVE INCOME (Unaudited)

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

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

	Quarter Ended December 31		Six Months Ended December 31	
	2000	1999	2000	1999
Revenues:				
Commissions and fees	\$ 69	\$ 107	\$ 129	\$ 210
Interest	76	50	132	101
Trust expense reimbursement	265	65	326	128
Gain on sale of real estate	828	--	828	--
Other	1	1	2	8
	-----	-----	-----	-----
	1,239	223	1,417	447
	-----	-----	-----	-----
Expenses:				
Personnel	347	101	435	199
Other operating	193	110	269	197
	-----	-----	-----	-----
	540	211	704	396
	-----	-----	-----	-----
Income from operations before federal income tax expense	699	12	713	51
Federal income tax expense	245	4	250	18
	-----	-----	-----	-----
Net income	454	8	463	33
Other comprehensive income, net of tax:				
Unrealized holding gains on equity securities	5	--	5	--
	-----	-----	-----	-----
Comprehensive income	\$ 459	\$ 8	\$ 468	\$ 33
	=====	=====	=====	=====
Basic earnings per share:				
Net income	\$ 0.08	\$ 0.00*	\$ 0.08	\$ 0.01*
Average number of shares	6,000	6,000*	6,000	6,000*
Diluted earnings per share:				
Net income	\$ 0.07	\$ 0.00*	\$ 0.08	\$ 0.01*
Average number of shares	6,136	6,123*	6,126	6,092*

* Per share amounts are based on shares issued or reserved for issuance to creditors.

See notes to consolidated financial statements.

STATEMENTS OF CONSOLIDATED CASH FLOWS (Unaudited)

SIENA HOLDINGS, INC. AND SUBSIDIARIES
(in thousands)

Six Months

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

	Ended December 31, 2000 -----
Operating activities:	
Net income	\$ 463
Adjustments to reconcile net income to net cash used by operating activities:	
Federal income tax expense charged to additional paid-in capital due to the utilization of pre-reorganization tax attributes	5
Federal income tax expense charged to deferred tax assets due to gain on sale of real estate	239
Gain on sale of real estate	(828)
Compensation expense for stock options	8
Increase in current receivables and prepaid expenses	(178)
Decrease in current accounts payable and accrued expenses	(3)
Decrease in long term accrued medical insurance premiums	(28)
Increase in long term deferred compensation and fees	207

Net cash used by operating activities	(115)

Investing activities:	
Purchases of available-for-sale securities	(83)
Sale of real estate	1,203
Increase in investment in real estate	(143)

Net cash provided (used) by investing activities	977

Net increase (decrease) in cash and cash equivalents	862
Cash and cash equivalents at beginning of period	4,088

Cash and cash equivalents at end of period	\$ 4,950
	=====
Cash payments for:	
Interest	\$ --
Federal income tax	\$ --
Non-cash transactions:	
Issuance of stock options	\$ 8

See notes to consolidated financial statements.

4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SIENA HOLDINGS, INC. AND SUBSIDIARIES

December 31, 2000

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,

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

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 generally accepted accounting principles 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 generally accepted accounting principles 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 conformity with generally accepted accounting principles 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 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, 2000.

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.

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

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 June 30, 2000 was \$31.1 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 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, and will terminate on October 4, 2001, unless an extension is approved by the Bankruptcy Court. 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

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

Creditors' Trust assets and liabilities since April 1, 1997, are not reflected in the accompanying Statements of Consolidated Operations and Comprehensive Income. 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 and the LFC/LMUSA Litigation Trust. Stockholders who are not former creditors of the Joint Debtors

6

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 \$265,000 and \$326,000 for the quarter and six months ended December 31, 2000, respectively, and \$65,000 and \$128,000 for the quarter and six months ended December 31, 1999, respectively, reported as trust expense reimbursement on the Company's Statements of Consolidated Operations and Comprehensive Income. The charges in the second quarter of fiscal year 2001 include \$212,000 for success bonuses paid to the Company pursuant to existing compensation plans for the directors and officers. The bonuses were paid as a result of the 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 2001 as remaining assets are liquidated.

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 -- 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, 2000, 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 consents 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 agree to provide written notice of the commencement of any negotiations. SHM has not been notified of any sale negotiations to date. 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.

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

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.

NOTE E -- 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 December 31, 2000, the cost and fair value of the securities based on quoted market prices were reported as \$83,000 and \$91,000, respectively. Unrealized gains and losses are included, net of tax, in accumulated other comprehensive income, a component of stockholders' equity as reported on the Company's Consolidated Balance Sheets.

NOTE F -- INVESTMENT IN REAL ESTATE

The Company's investment in real estate, owned by LLG, consist of 179.5 acres (approximately 155.3 acres net of flood plain) of unimproved land in Allen, Texas (the "Allen property") as of December 31, 2000. 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 December 31, 2000, the Allen property included five

7

tracts of land: one tract of approximately 36.9 net acres zoned multi-family, one tract of approximately 89.6 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. With a continuing view towards maximizing shareholder value, management is attempting to have the one residential tract re-zoned as commercial and 5 acres of the multi-family property re-zoned as light industrial.

The acreage was increased by a total of 5.7 gross acres and 13.7 net acres in fiscal year 2000 due to management's decision to reclaim a portion of the flood plain acreage and the results of a new land survey that redefined the boundaries. The Company was successful in fiscal year 1999 in re-zoning and relocation of zoning in certain tracts. As disclosed in prior filings, the Company, with a continuing view towards maximizing shareholder value, has undertaken an on-going program involving the possible sale of all or part of the Allen property or its continued development. During fiscal year 2000 and continued into fiscal year 2001, the Company has held negotiations with third parties for the sale of certain parcels of the Allen property, including negotiations on the light industrial property and a portion of one of the commercial properties.

On October 30, 2000, as disclosed in a current report on Form 8-K filed on October 31, 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 \$1.203 million and the Company recorded a gain on sale of \$828,000 as reported in the Company's Statements of Consolidated Operations and Comprehensive Income. The Company offset a portion of the income tax expense due to the gain on sale of real estate against the existing deferred tax assets, resulting in a decrease in the deferred tax assets of \$239,000. Approximately \$6,000 of alternative minimum tax expense will be due by the Company.

Based on the property sale, the other negotiations described above and improved market conditions, management believes that the Company would be able

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

to sell the remaining Allen property for a value in excess of the tax basis. As a result, the Company reduced the valuation allowance for deferred tax assets by \$324,000 and additional paid-in-capital was increased by \$324,000 in the quarter ended December 31, 2000. The Company reported a net deferred tax asset balance of \$1.526 million and \$1.441 million as of December 31 and June 30, 2000, respectively, 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 December 31, 2000 will be allocated to additional paid-in capital.

While the Company will continue to consider any proposals which it, in its best judgement, considers to be reasonable and in the interests of its shareholders, there is no way to reasonably predict if any such proposals will ultimately lead to any real estate transactions and when such transactions might occur.

NOTE G -- STOCKHOLDERS' EQUITY

As of December 31 and June 30, 2000, the Company had 15,000,000 shares of \$.10 par value common stock authorized, with 6,000,000 shares issued and outstanding. Pursuant to the Joint Plan and a decision by the LFC Creditors' Committee, 4,000,000 shares of common stock were reserved for issuance on April 1, 1997 and ultimately issued by the stock transfer agent on 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 common stock has no preemptive or other subscription rights and there are no conversion rights, redemption or sinking fund provisions with respect to such shares.

SHI and its subsidiaries reported federal income tax expense of \$245,000 and \$250,000 for the quarter and six months ended December 31, 2000, respectively, and \$4,000 and \$18,000 for the quarter and six months ended December 31, 1999, respectively. This was offset by a tax benefit of \$239,000 and \$244,000 for the quarter and six months ended December 31, 2000, respectively, and \$4,000 and \$18,000 for the quarter and six months ended December 31, 1999,

8

respectively, as an increase to additional paid-in capital or a charge to deferred tax assets resulting from the utilization of a portion of the Company's pre-reorganization net operating loss carryforwards and deductible temporary differences. 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 income, a component of stockholders' equity as reported on the Company's Consolidated Balance Sheets.

At the annual meeting on December 15, 2000, the stockholders of SHI (the "Stockholders") approved a proposal to amend the Company's certificate of incorporation (a) to effect, as determined by the Board in its sole discretion, a reverse stock split of the outstanding Common Stock on the effective date of

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

the amendment (the "Effective Date"), pursuant to which each 100 shares then outstanding will be converted into one share (the "Reverse Stock Split"), and (b) to effect a forward split of the Common Stock on the day following the effective date of the Reverse Split, pursuant to which Common Stock then outstanding as of such date will be converted into the number of shares of the Common Stock that such shares represented immediately prior to the Effective Date (the "Forward Stock Split"). In lieu of issuing less than one whole share resulting from the proposed stock split to holders of fewer than 100 shares, as the case may be, the Company would make a cash payment based on the higher of either the stated book value of the Company on June 30, 2000, or the closing prices of the Common Stock, as discussed in more detail in the Company's Proxy Statement dated October 30, 2000. The Board is authorized, in its sole discretion, to effect the Reverse Stock Split based on factors existing at the time of determination, including (a) the availability of funds necessary to consummate the Reverse Stock Split and the cost of such funds; (b) the market price of the Common Stock; (c) the Board's determination of whether the Reverse Stock Split will result in a reduction in the Company's administrative expenses; (d) prevailing market conditions; (e) the likely effect on the market price of the Common Stock; and (f) other relevant factors.

Consummation of the proposed Reverse Stock Split / Forward Stock Split will not change the number of shares of Common Stock authorized by the Company's certificate of incorporation, which will remain at 15 million shares. The Board, in its sole discretion, may abandon the proposed stock splits at any time before the Effective Date without further action by the Stockholders. If the Board determines to consummate a Reverse Stock Split / Forward Stock Split, the Company will publicly announce the determination at least 10 days prior to the Effective Date.

The Company, as of December 31 and June 30, 2000, had 1,000,000 shares of \$1.00 par value preferred stock authorized, with 0 shares issued and outstanding.

NOTE H -- DEFERRED TAX ASSETS AND FEDERAL INCOME TAX EXPENSE

SHI and its subsidiaries had no gross deferred tax liabilities and approximately \$95.4 million in gross deferred tax assets as of June 30, 2000, subject to an offsetting valuation allowance of approximately \$94.0 million. As a result of the gain on sale of real estate recognized in October 2000, the Company offset a portion of the income tax expense due to the gain on sale against the existing deferred tax assets, resulting in a decrease in the deferred tax assets of \$239,000. In addition, 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. Thus, the Company reduced the valuation allowance for deferred tax assets by \$324,000 and additional paid-in-capital was increased by \$324,000 in the quarter ended December 31, 2000. The Company reported a net deferred tax asset balance of \$1.526 million and \$1.441 million as of December 31 and June 30, 2000, 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 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

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

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 December 31, 2000.

SHI and its subsidiaries reported federal income tax expense of \$245,000 and \$250,000 for the quarter and six months ended December 31, 2000, respectively, and \$4,000 and \$18,000 for the quarter and six months ended December 31, 1999, respectively. This was partially offset by a tax benefit of \$239,000 and \$244,000 for the quarter and six months ended December 31, 2000, respectively, and \$4,000 and \$18,000 for the quarter and six months ended December 31, 1999, respectively, as an increase to additional paid-in capital or a charge to deferred tax assets resulting from the utilization of a portion of the Company's pre-reorganization net operating loss carryforwards and deductible temporary differences. Future utilization of these pre-reorganization tax attributes on a consolidated basis will result in adjustments to additional paid-in capital. The Company also reported approximately \$6,000 of alternative minimum tax expense for the quarter and six months ended December 31, 2000. The only portion of federal income tax expense that is owed by the Company is the alternative minimum tax liability as a result of the utilization of a portion of the Company's net operating loss carryforwards and deductible temporary differences.

NOTE I -- EARNINGS PER SHARE

Earnings per common share were determined using the weighted average shares issued or reserved for issuance. 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 per common share to the extent that they are dilutive to earnings.

NOTE J -- 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, 2000, 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 December 31 and June 30, 1999 (in thousands):

	December 31, 2000

Identifiable assets:	
Assisted care facility management (including receivable from parent company eliminated in consolidation)	\$ 304
Real estate	5,709

	6,013

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

Reconciling items:		
Corporate cash, receivables and prepaid expenses (including receivable from subsidiary eliminated in consolidation)		4,281
Deferred tax assets--net		1,526
Elimination of intercompany receivables		(204)

Total assets per Consolidated Balance Sheets	\$	11,616
		=====

10

The following table summarizes the Company's segment data of operations for the quarters and six months ended December 31, 2000 and 1999 (in thousands):

	Quarter Ended December 31		Six Months E December
	2000	1999	2000
	-----	-----	-----
Revenues:			
Assisted care management	\$ 69	\$ 107	\$ 129
Real estate	838	1	839
	-----	-----	-----
	907	108	968
	-----	-----	-----
Reconciling items:			
Corporate interest income	67	50	123
Trust expense reimbursement	265	65	326
Other corporate revenue	--	--	--
	-----	-----	-----
	332	115	449
	-----	-----	-----
Total revenues per Statement of Consolidated Operations and Comprehensive Income	\$ 1,239	\$ 223	\$ 1,417
	=====	=====	=====
Operating income (loss):			
Assisted care management	\$ 39	\$ 64	\$ 74
Real estate	837	(7)	838
	-----	-----	-----
	876	57	912
	-----	-----	-----
Reconciling items:			
Corporate interest income	67	50	123
Trust expense reimbursement	265	65	326
Unallocated corporate expenses	(509)	(160)	(648)
Other	--	--	--
	-----	-----	-----
	(177)	(45)	(199)
	-----	-----	-----
Income from operations before federal income tax expense per Statement of Consolidated Operations and Comprehensive Income	\$ 699	\$ 12	\$ 713
	=====	=====	=====

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

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 six months ended December 31, 2000 and 1999, were as follows (in thousands):

	Quarter Ended December 31		Six Months Ended December 31	
	2000	1999	2000	1999
Operating income (loss):				
Assisted care management	\$ 39	\$ 64	\$ 74	\$ 119
Real estate	837	(7)	838	(10)
	-----	-----	-----	-----
	876	57	912	109
	-----	-----	-----	-----
Other income and expenses:				
Interest income	67	50	123	101
Trust expense reimbursement income	265	65	326	128
Unallocated corporate expenses	(509)	(160)	(648)	(294)
Other	--	--	--	7
	-----	-----	-----	-----
	(177)	(45)	(199)	(58)
	-----	-----	-----	-----
Income from operations before federal income tax expense	699	12	713	51
Federal income tax expense	245	4	250	18
	-----	-----	-----	-----
Net income	\$ 454	\$ 8	\$ 463	\$ 33
	=====	=====	=====	=====

Assisted Care Management. The decrease in the profitability of the assisted care management operations of \$35,000 and \$55,000 for the quarter and six months ended December 31, 2000, respectively, 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

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

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 \$38,000 and \$81,000 lower in the in the quarter and six month period of fiscal year 2001, respectively, as compared to the same periods in fiscal year 2000, primarily due to higher insurance expense and lower occupancy reported by Treemont. While occupancy rates are down from the prior fiscal year, there has been a slight increase in the rates reported over the prior quarter. The decrease in income was partially offset by a decrease in commission-based personnel expense, travel and certain computer related costs.

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 consents that

12

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 agree to provide written notice of the commencement of any negotiations. SHM has not been notified of any sale negotiations to date. 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, consist of 179.5 acres (approximately 155.3 acres net of flood plain) of unimproved land in Allen, Texas (the "Allen property") as of December 31, 2000. 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 December 31, 2000, the Allen property included five tracts of land: one tract of approximately 36.9 net acres zoned multi-family, one tract of approximately 89.6 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. With a continuing view towards maximizing shareholder value, management is attempting to have the one residential tract re-zoned as commercial and 5 acres of the multi-family property re-zoned as light industrial.

The acreage was increased by a total of 5.7 gross acres and 13.7 net acres in fiscal year 2000 due to management's decision to reclaim a portion of the flood plain acreage and the results of a new land survey that redefined the boundaries. The Company was successful in fiscal year 1999 in re-zoning and relocation of zoning in certain tracts. As disclosed in prior filings, the Company, with a continuing view towards maximizing shareholder value, has undertaken an on-going program involving the possible sale of all or part of the Allen property or its continued development. During fiscal year 2000 and continued into fiscal year 2001, the Company has held negotiations with third parties for the sale of certain parcels of the Allen property, including negotiations on the light industrial property and a portion of one of the commercial properties.

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

On October 30, 2000, as disclosed in a current report on Form 8-K filed on October 31, 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 \$1.203 million and the Company recorded a gain on sale of \$828,000 as reported in the Company's Statements of Consolidated Operations and Comprehensive Income. The Company offset a portion of the income tax expense due to the gain on sale of real estate against the existing deferred tax assets, resulting in a decrease in the deferred tax assets of \$239,000. Approximately \$6,000 of alternative minimum tax expense will be due by the Company.

Based on the property sale, the other negotiations described above 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 reduced the valuation allowance for deferred tax assets by \$324,000 and additional paid-in-capital was increased by \$324,000 in the quarter ended December 31, 2000. The Company reported a net deferred tax asset balance of \$1.526 million and \$1.441 million as of December 31 and June 30, 2000, respectively, 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 December 31, 2000 will be allocated to additional paid-in capital.

While the Company will continue to consider any proposals which it, in its best judgement, considers to be reasonable and in the interests of its shareholders, there is no way to reasonably predict if any such proposals will ultimately lead to any real estate transactions and when such transactions might occur.

The real estate subsidiary reported operating income for the quarter and six months ended December 31, 2000 of \$837,000 and \$838,000, respectively, as compared to an operating loss of \$7,000 and \$10,000 for the quarter and six months ended December 31, 1999, respectively. The fiscal year 2001 periods included the \$828,000 gain on sale of real estate discussed above. Improvement costs of \$34,000 and \$143,000 related to developing the property were capitalized

13

during the quarter and six months ended December 31, 2000, respectively, in accordance with the Company's capitalization policy, as compared to \$19,000 and \$39,000 of costs that were capitalized during the quarter and six months ended December 31, 1999, respectively. The increase in fiscal year 2001 is due to work being performed related to the flood plain recovery project that was primarily completed during the second quarter. 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 \$265,000 and \$326,000 for the quarter and six months ended December 31, 2000, respectively, and \$65,000 and \$128,000 for the quarter and six months ended December 31, 1999, respectively, reported as trust expense reimbursement on the Company's Statements of Consolidated Operations and Comprehensive Income. The charges in the second quarter of fiscal year 2001 include \$212,000 for success bonuses paid to the Company pursuant to existing compensation plans for the directors and officers. The bonuses were paid as a result of 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 2001 as

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

remaining assets are liquidated.

Corporate interest income of \$67,000 and \$123,000 for the quarter and six months ended December 31, 2000, respectively, as compared to \$50,000 and \$101,000 for the quarter and six months ended December 31, 1999, respectively, increased as a result of an increase in cash and cash equivalents held by the Company.

Other Expenses. Unallocated corporate expenses increased \$349,000 and \$354,000 for the quarter and six months ended December 31, 2000 over the same periods in the prior year. The increase is primarily due to the success bonuses in the amount of \$311,000 paid to directors and officers pursuant to existing compensation plans. 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 \$99,000 were paid based on the gain recognized on the sale of real estate. Other variances of unallocated corporate expenses include higher professional legal and accounting fees, increased corporate insurance amortization and an increase in general office expenses.

Other Significant Items. At the annual meeting on December 15, 2000, the stockholders of SHI (the "Stockholders") approved a proposal to amend the Company's certificate of incorporation (a) to effect, as determined by the Board in its sole discretion, a reverse stock split of the outstanding Common Stock on the effective date of the amendment (the "Effective Date"), pursuant to which each 100 shares then outstanding will be converted into one share (the "Reverse Stock Split"), and (b) to effect a forward split of the Common Stock on the day following the effective date of the Reverse Split, pursuant to which Common Stock then outstanding as of such date will be converted into the number of shares of the Common Stock that such shares represented immediately prior to the Effective Date (the "Forward Stock Split"). In lieu of issuing less than one whole share resulting from the proposed stock split to holders of fewer than 100 shares, as the case may be, the Company would make a cash payment based on the higher of either the stated book value of the Company on June 30, 2000, or the closing prices of the Common Stock, as discussed in more detail in the Company's Proxy Statement dated October 30, 2000. The Board is authorized, in its sole discretion, to effect the Reverse Stock Split based on factors existing at the time of determination, including (a) the availability of funds necessary to consummate the Reverse Stock Split and the cost of such funds; (b) the market price of the Common Stock; (c) the Board's determination of whether the Reverse Stock Split will result in a reduction in the Company's administrative expenses; (d) prevailing market conditions; (e) the likely effect on the market price of the Common Stock; and (f) other relevant factors.

Consummation of the proposed Reverse Stock Split / Forward Stock Split will not change the number of shares of Common Stock authorized by the Company's certificate of incorporation, which will remain at 15 million shares. The Board, in its sole discretion, may abandon the proposed stock splits at any time before the Effective Date without further action by the Stockholders. If the Board determines to consummate a Reverse Stock Split / Forward Stock Split, the Company will publicly announce the determination at least 10 days prior to the Effective Date.

Liquidity and Capital Resources

As of December 31, 2000, the only liabilities of the Company were accounts payable and accrued expenses which will be paid from current operating cash available as of December 31, 2000.

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

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 speculative, growth oriented equity securities exposes the Company to general market risks. As of December 31, 2000, the amount invested in equity securities was \$83,000 with a fair market value of \$91,000. The securities are classified as available-for-sale and reported on the Company's Consolidated Balance Sheets at fair market value with the unrealized holding gain included, net of tax, in accumulated other comprehensive income, a component of stockholders' equity.

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 3. Defaults Upon Senior Securities.

Refer to the Company's annual report on Form 10-K for the year ended June 30, 2000, for information regarding defaults by the Company relating to the debt obligations of the Predecessor Company.

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

The Company held its Annual Meeting of Stockholders on December 15, 2000, in Wilmington, Delaware for the following purposes:

1. To elect five directors (John P. Kneafsey, Eric M. Bodow, James D. Kemp, Matthew S. Metcalfe, and Frank B. Ryan) to serve until the next annual meeting and until their successors are elected and qualified.

VOTING

Nominees for Director	Number of Shares For	Number of Shares Against	Number of Shares Abstained
John P. Kneafsey	5,339,380	0	2,189
Erik M. Bodow	5,279,653	0	61,916
James D. Kemp	5,279,653	0	61,916
Matthew S. Metcalfe	5,338,955	0	2,614
Frank B. Ryan	5,279,653	0	61,916

15

2. To approve and authorize the Board of Directors to effect, in its discretion, a reverse stock split followed by a forward split of the Company's Common Stock.

VOTING

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

Number of Shares For	Number of Shares Against	Number of Shares Abstained	Number of Broker Non-Votes
5,334,971	2,935	3,663	0

3. To ratify the appointment of KPMG LLP as independent public accountants for the Company for the fiscal year ending June 30, 2001.

VOTING

Number of Shares For	Number of Shares Against	Number of Shares Abstained	Number of Broker Non-Votes
5,340,151	566	852	0

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

(a) Exhibits:

Exhibit
Number

- (11) Computation of Earnings (Loss) Per Share
- (27) Financial Data Schedule (submitted to the Securities and Exchange Commission (the "Commission")) for its information).

(b) Reports on Form 8-K:

On October 31, 2000, the Company filed with the Commission a current report on Form 8-K relating to the sale of real estate property, which is discussed in greater detail under "Note E--Investment in Real Estate" in this report.

16

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: February 9, 2001

By: /s/ W. JOSEPH DRYER

President

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

Date: February 9, 2001

By: /S/ W. JOSEPH DRYER

Principal Accounting Officer