

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

SIENA HOLDINGS INC
Form 10-Q
May 14, 2003

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, 2003

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12-b2 of the Exchange Act).

YES NO

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of each of the issuer's classes of common stock as of May 9, 2003: Common Stock, \$.10 par value -- 6,000,000 shares.

SIENA HOLDINGS, INC. AND SUBSIDIARIES

FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2003

INDEX

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

Page

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)	
Consolidated Balance Sheets-- March 31, 2003 and June 30, 2002	2
Statements of Consolidated Operations and Comprehensive Income (Loss)--Quarters and Nine Months Ended	
March 31, 2003 and 2002	3
Statements of Consolidated Cash Flows -- Nine Months Ended	
March 31, 2003 and 2002	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
Critical Accounting Policies.....	15
Item 3. Quantitative and Qualitative Disclosures About Market Risk.....	15
Item 4. Controls and Procedures.....	15

PART II -- OTHER INFORMATION

Item 3. Defaults Upon Senior Securities.....	16
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)

	March 31, 2003	June 30, 2002
	-----	-----
	(unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 5,332	\$ 5,711
Investments in equity securities	102	197
Receivables	94	93
Prepaid expenses	71	28
	-----	-----
	5,599	6,029
	-----	-----
Long Term Assets:		
Investment in real estate	4,764	4,656

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

Deferred tax assets - net	--	1,908
	4,764	6,564
	-----	-----
Total Assets	\$ 10,363	\$12,593
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 164	\$ 160
Unearned income	--	125
Deferred tax liabilities	--	7
	-----	-----
	164	292
	-----	-----
Long Term Liabilities:		
Accrued medical insurance premiums	352	392
Deferred compensation and fees	491	444
	-----	-----
	843	836
	-----	-----
	1,007	1,128
	-----	-----
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	10,216	10,188
Retained earnings (accumulated deficit)	(1,385)	664
Accumulated other comprehensive income (loss), net of tax ..	(75)	13
	-----	-----
	9,356	11,465
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 10,363	\$12,593
	=====	=====

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		Nine Mon Mar
	2003	2002	2003
	-----	-----	-----
Revenues:			

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

Commissions and fees	\$ 94	\$ 60	\$ 247
Interest	14	21	52
Trust expense reimbursement	12	11	86
Other real estate income	61	--	186
Gain on sale of real estate	--	36	--
Other	--	--	--
	-----	-----	-----
	181	128	571
	-----	-----	-----
Expenses:			
Personnel	119	92	314
Other operating	158	99	398
Other than temporary losses on equity securities	--	41	--
	-----	-----	-----
	277	232	712
	-----	-----	-----
Loss from operations before federal income tax	(96)	(104)	(141)
Federal income tax expense	--	--	1,908
	-----	-----	-----
Net loss	(96)	(104)	(2,049)
	-----	-----	-----
Other comprehensive income (loss), net of tax:			
Unrealized gains (losses) on equity securities:			
Unrealized holding gains (losses) arising during period	6	37	(88)
Add: reclassification adjustment for other than temporary losses included in net loss	--	27	--
	-----	-----	-----
Other comprehensive income (loss), net of tax	6	64	(88)
	-----	-----	-----
Comprehensive Loss	\$ (90)	\$ (40)	\$ (2,137)
	=====	=====	=====
Basic loss per share:			
Net loss	(0.02)	\$ (0.02)	\$ (0.34)
Average number of shares	6,000	6,000	6,000
Diluted loss per share:			
Net loss	(0.02)	\$ (0.02)	\$ (0.34)
Average number of shares	6,000*	6,000*	6,000*

* Potentially dilutive common shares are not included in the computation of the dilutive per share amount due to the net loss.

See notes to consolidated financial statements.

STATEMENTS OF CONSOLIDATED CASH FLOWS (Unaudited)

SIENA HOLDINGS, INC. AND SUBSIDIARIES
(in thousands)

Nine Months End
March 31

2003 2002

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

Operating activities:		
Net loss	\$ (2,049)	\$ (2)
Adjustments to reconcile net loss to net cash used by operating activities:		
Federal income tax expense charged as a result of the increase in the valuation allowance attributable to pre-reorganization net operating loss carryforwards	1,908	
Federal income tax refund credited to additional paid-in-capital	21	
Other than temporary losses on equity securities	--	
Gain on sale of real estate	--	
Compensation expense for stock options	7	
Decrease (increase) in current receivables and prepaid expenses	(44)	
Increase (decrease) in current accounts payable and accrued expenses	4	
Increase (decrease) in unearned income	(125)	1
Decrease in long term accrued medical insurance premiums	(40)	
Increase in long term deferred compensation and fees	47	
	-----	-----
Net cash used by operating activities	(271)	(
	-----	-----
Investing activities:		
Purchases of equity securities	--	
Sale of real estate	--	
Increase in investment in real estate	(108)	
	-----	-----
Net cash used by investing activities	(108)	(
	-----	-----
Net decrease in cash and cash equivalents	(379)	(
Cash and cash equivalents at beginning of period	5,711	5,9
	-----	-----
Cash and cash equivalents at end of period	\$ 5,332	\$ 5,8
	=====	=====
Cash payments for:		
Interest	\$ --	\$
Federal income tax	\$ --	\$
Changes to additional paid-in-capital:		
Compensation expense related to stock options	\$ 7	\$
Federal income tax refund	21	
Other	--	
	-----	-----
Net increase in additional paid-in-capital	\$ 28	\$
	=====	=====

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SIENA HOLDINGS, INC. AND SUBSIDIARIES

MARCH 31, 2003

NOTE A -- BASIS OF FINANCIAL STATEMENT PRESENTATION

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

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. ("LLG"). 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 was 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 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 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, 2002.

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

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

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.

5

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.

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. On August 30, 2002, the remaining assets of the Creditors' Trust were liquidated and contingent liabilities were reserved for, resulting in a final net distribution of \$1.7 million. The total of cash distributions through March 31, 2003 was \$34 million. On March 17, 2003, the Company received a signed order from the Bankruptcy Court ordering the termination of the Creditors' Trust.

The Company, as trustee of the Creditors' Trust (the "Trustee"), has attempted to maximize the value of the Creditors' Trust assets, and the success of these efforts can be seen by the total of seven cash distributions and two common stock distributions that the Trustee made over the life of the Creditors' Trust to the beneficiaries. During the LFC bankruptcy, the various claims were trading around six to eight cents on the dollar. The Trustee estimates that the total amount of cash and stock distributions to beneficiaries was more than \$40 million, or more than twenty-eight and a half cents per dollar of bond value.

NOTE C -- CREDITORS' TRUST

The Joint Plan established a creditors' trust (the "Creditors' Trust") in which the Company serves as trustee. The Creditors' Trust held 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 was organized for the sole purpose of liquidating the non-reorganized assets including proceeds, if any from the LFC/LMUSA Litigation Trust. On August 30, 2002, the remaining assets of the Creditors' Trust were liquidated and contingent liabilities were reserved for, resulting in a final net distribution to trust beneficiaries of \$1.7 million. The total of cash distributions through March 31, 2003 was \$34 million. On March 17, 2003, the Company received a signed order from the Bankruptcy Court ordering the termination of the Creditors' Trust.

The Company, as trustee of the Creditors' Trust (the "Trustee"), has attempted to maximize the value of the Creditors' Trust assets, and the success of these efforts can be seen by the total of seven cash distributions and two common stock distributions that the Trustee made over the life of the Creditors' Trust to the beneficiaries. During the LFC bankruptcy, the various claims were trading around six to eight cents on the dollar. The Trustee estimates that the total amount of cash and stock distributions to beneficiaries was more than \$40 million, or more than twenty-eight and a half cents per dollar of bond value.

The assets and liabilities of the Creditors' Trust have not been 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 from April 1, 1997, through liquidation of the trust have not been reflected in the accompanying Statements of Consolidated Operations and Comprehensive Income (Loss). The allocation of costs between the Creditors' Trust and the Company was based on management's estimate of each entity's proportional share of costs. Gains and losses from the Creditors' Trust were solely for the former creditors' benefit and the Company had no risk of loss on the assets or liabilities. The amounts ultimately distributed to the former creditors were 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 were not former creditors of the Joint Debtors were not beneficiaries of the Creditors' Trust.

The Company charged to the Creditors' Trust expenses of \$12,000 and \$86,000 for the quarter and nine months ended March 31, 2003, respectively, and \$11,000 and \$68,000 for the quarter and nine months ended March 31, 2002, respectively, reported as trust expense reimbursement on the Company's Statements of Consolidated Operations and Comprehensive Income (Loss). The expenses 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 was slightly higher for the periods ended March 31, 2003, as a result of the additional work related to the final distribution and the liquidation of the Trust. There will be no additional trust expense reimbursement income for the remainder of the fiscal year or thereafter.

6

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, 2003. 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, 2003, 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, 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.

The Company's strategy for its real estate holdings has been to attempt to increase the value of the property through the re-zoning of certain tracts. As previously reported, several of the re-zoning proposals were approved, specifically relocating the multifamily tract to a more accessible location in 1999, and changing the single family zoning to light industrial. In the fourth quarter of fiscal year 2001, five acres of the multi-family property were successfully re-zoned as light industrial.

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 Consolidated Financial Statements. In addition, Crow Family Holdings acquired outstanding options, which expired 18 months from the original sale date, to purchase substantially all the remaining light industrial property (approximately 77.2 net acres). 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

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

rollback taxes, reported as additional gain on the sale of real estate in the Company's Consolidated Financial Statements.

On February 22, 2002, the Company and Crow Family Holdings agreed to the First Amendment to Sale Contract (the "First Amendment") which extended 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 extended the option period to August 22, 2002, on all outstanding options. The Company received a \$125,000 non-refundable deposit, which was included in unearned income on the Company's Consolidated Balance Sheets as of June 30, 2002. On August 23, 2002, the Company was informed that Crow Family Holdings would not close on the transaction or exercise their options. Therefore, the Company recognized the \$125,000 as other real estate income reported in the Company's Statements of Consolidated Operations and Comprehensive Income (Loss) for the quarter ended September 30, 2002. In the second quarter of fiscal year 2003, Crow Family Holdings indicated that they no longer had an interest in entering into an agreement with the Company.

On February 10, 2003, the Company completed the sale of an easement over a portion of the light industrial property for a sewer line to the city of Fairview. The Company received proceeds of \$59,500 included in other real estate income in the Company's Statements of Consolidated Operations and Comprehensive Income (Loss) for the quarter ended March 31, 2003. The Company shall have the right to fully use the premises covered by the easement; however, it may not erect buildings over the easement tract.

The Company is currently marketing the property zoned for multifamily use, and continues to market the light industrial and commercial properties. During the past year, management has been disappointed in being unsuccessful in completing the sale of some of the properties; most notably, the agreement with Crow Family Holdings for the light industrial property. The Company is continuing to market the properties, even though the near-term outlook for commercial real estate is rather uncertain, due to the increasingly soft economic conditions, various customer project delays, and especially the suddenly depressed real estate market in the nearby Dallas telecom corridor. Management has also been considering the amount of time available to the Company to hold and maintain the various real estate assets given the new cost and operating environments that the Company finds itself in today. Management expects increased costs related to new legislation in the areas of public reporting and shareholder administration, legal, audit and liability insurance. These higher costs and lower revenue expectations directly affect the ability of the Company to carry the real estate assets for an extended period of time.

7

Due to these various changes discussed above, management believes that it is no longer "more likely than not" that the Company will be able to realize any benefit related to the deferred tax assets, net of the existing valuation allowance as of March 31, 2003 and December 31, 2002. In the quarter ended December 31, 2002, the Company reestablished the valuation allowance for pre-reorganization deferred tax assets by charging deferred federal income tax expense in the amount of \$1.908 million, which eliminated the net deferred tax asset balance included in the Company's Consolidated Balance Sheet. As of March 31, 2003 and June 30, 2002, the Company reported a net deferred tax asset balance of \$0 and \$1.908 million, respectively, included in long term assets on the Company's Consolidated Balance Sheets.

Real estate is carried at the fresh-start reporting value as of March 31, 1997, adjusted for improvements capitalized in accordance with the Company's capitalization policy. The Company's investment in real estate was reported as

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

\$4.764 million and \$4.656 million as of March 31, 2003, and June 30, 2002, respectively, on the Company's Consolidated Balance Sheets. Even though there has been a decline in the market values as described above, the real estate investment amounts carried on the Company's Consolidated Balance Sheets are not deemed to be impaired as of March 31, 2003.

NOTE E -- ASSISTED CARE FACILITY MANAGEMENT

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, 2002, 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. 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 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. In the first quarter of fiscal year 2003, SHM was informed that the owners of Treemont had signed an agreement to sell the property. In February 2003, the sale terminated on its own terms, however, the owners of Treemont renegotiated the contract with the same buyer in May 2003. The sales agreement has certain due diligence, financing and insurance requirements. As a result of these requirements, there can be no assurance that the sale transaction will, in fact, close.

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. The fair value of the securities based on quoted market prices was \$102,000 and \$197,000 as of March 31, 2003 and June 30, 2002, respectively. The cost basis of the securities as of March 31, 2003 and June 30, 2002, was reported as \$176,000 and \$176,000, respectively. The cost basis was reduced by \$41,000 during fiscal year 2002 for realized losses from other than a temporary decline in the value of the securities. Unrealized gains and losses are included, net of tax, in accumulated other comprehensive income (loss), a component of stockholders' equity as reported on the Company's Consolidated Balance Sheets. Realized gains and losses are reported in revenue on the Company's Statements of Consolidated Operations and Comprehensive Income (Loss). Realized losses from other than temporary decline in value of the securities are reported as expense on the Company's Statements of Consolidated Operations and Comprehensive Income (Loss).

NOTE G -- STOCKHOLDERS' EQUITY

As of March 31, 2003 and June 30, 2002, the Company had 15,000,000 shares of \$.10 par value common stock authorized, with 6,000,000 shares issued and outstanding. 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.

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

For the nine months ended March 31, 2003, the Company recorded \$7,000 in compensation expense related to stock options which increased additional paid-in-capital by \$7,000. The Company also received a tax refund of \$21,000 that increased additional paid-in-capital by \$21,000, for a total increase to additional paid-in-capital of \$28,000. The Company 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. Other changes increased additional paid-in-capital \$8,000, resulting in a total increase to additional paid-in-capital of \$20,000 for the nine months ended March 31, 2002.

The Company, as of March 31, 2003 and June 30, 2002, had 1,000,000 shares of \$1.00 par value preferred stock authorized, with 0 shares issued and outstanding.

On February 13, 2003, the Company's Board of Directors approved the formation of a special committee of independent directors to explore a going private transaction by means of a reverse stock split. The contemplated transaction is subject to a number of conditions, including the approval of the transaction by the special committee, which will consist solely of independent members of the Board, the receipt of a fairness opinion from the financial advisor to the special committee that the proposed transaction is fair from a financial point of view to the Company's stockholders, and approval by the Company's stockholders. There is no assurance that the contemplated transaction will be completed.

NOTE H -- FEDERAL INCOME TAXES

For the quarter and nine months ended March 31, 2003, SHI and its subsidiaries reported federal income tax expense of \$0 and \$1.908 million, respectively, and \$0 and \$0 for the quarter and nine months ended March 31, 2002, respectively. The federal income tax expense for the nine months ended March 31, 2003, included \$1.908 million of deferred tax expense resulting from the reestablishment of the valuation allowance for pre-reorganization deferred tax assets, as discussed below.

Due to the various changes in the commercial real estate market and the Company's higher cost and lower revenue expectations discussed in "Note D - Investment in Real Estate", management now believes that it is not more likely than not that the Company will be able to realize the benefit of these deferred tax assets, net of the existing valuation allowance as of March 31, 2003 and December 31, 2002. In the quarter ended December 31, 2002, the Company reestablished the valuation allowance for pre-reorganization deferred tax assets by charging deferred federal income tax expense in the amount of \$1.908 million, which eliminated the net deferred tax asset balance included in the Company's Consolidated Balance Sheet. As of March 31, 2003 and June 30, 2002, the Company reported a net deferred tax asset balance of \$0 and \$1.908 million, respectively, included in long term assets on the Company's Consolidated Balance Sheets.

SHI and its subsidiaries had \$95 million in gross deferred tax assets as of March 31, 2003 and June 30, 2002, subject to an offsetting valuation allowance of \$95 million and \$93.0 million as of March 31, 2003 and June 30, 2002, respectively. 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 a federal income tax benefit to the extent of the net deferred tax assets that had been previously recognized. Future utilization of these pre-reorganization tax attributes in an amount greater than the net deferred tax assets that had been previously recognized will result in direct increases to additional paid-in-capital. The Company reported gross deferred tax liabilities

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

of \$0 and \$7,000 as of March 31, 2003 and June 30, 2002, respectively. Refer to the "Federal Income Taxes" footnote as reported in the annual report on Form 10-K for the year ended June 30, 2002, for more information.

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 planning strategies in making this assessment.

NOTE I -- LOSS PER SHARE

Losses per common share were determined using the weighted average shares issued. The effects of outstanding options are not included in the calculation of diluted loss per common share as they are anti-dilutive. Therefore, the effect of the 6,106,000 and 6,131,000 options for the quarter and nine months ended March 31, 2003, respectively, and 6,144,000 and 6,132,000 options for the quarter and nine months ended March 31, 2002, respectively, are not included in the calculation of diluted loss per common share.

9

NOTE J -- RECENT ACCOUNTING PRONOUNCEMENTS

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123, Accounting for Stock-Based Compensation to require prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation arrangements in each period presented, and provides for a specific tabular format of the pro forma disclosures required by SFAS No. 123. The Company adopted SFAS No. 148 in the third quarter of fiscal year ended June 30, 2003. The Company accounts for its stock-based compensation using the intrinsic value method as prescribed by APB Opinion No. 25 "Accounting for Stock Issued to Employees" and related interpretation as allowed by SFAS No. 123 and SFAS No. 148. There is no impact on the quarter ended March 31, 2003, because there were no new options granted during the quarter and the existing options were fully vested by December 31, 2002. The following table illustrates the effect on net loss as if the fair-value-based method had been applied to all outstanding and unvested awards in each period presented (in thousands):

	Quarter Ended March 31		Nine Month March
	2003	2002	2003
Net loss, as reported	\$ (96)	\$ (104)	\$ (2,049)
Deduct stock-based employee compensation expense included in reported net loss, net of tax	--	4	7
Add total stock-based employee compensation expense determined under fair-value-based			

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

method for all rewards, net of tax	--	(27)	(45)
	-----	-----	-----
Pro forma net loss	\$ (96)	\$ (127)	\$ (2,087)
	=====	=====	=====
Loss, Per Share			
Basic loss, per share as reported	\$ (0.02)	\$ (0.02)	\$ (0.34)
	-----	-----	-----
Basic loss, per share pro forma	\$ (0.02)	\$ (0.02)	\$ (0.35)
	-----	-----	-----
Diluted loss, per share as reported	\$ (0.02)	\$ (0.02)	\$ (0.34)
	-----	-----	-----
Diluted loss, per share pro forma	\$ (0.02)	\$ (0.02)	\$ (0.35)
	=====	=====	=====

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 Company adopted SFAS No. 144 on July 1, 2002, and there was no impact on its consolidated financial statements.

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 investment 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, 2002, 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, 2003 and June 30, 2002 (in thousands):

(table on following page)

	March 31, 2003	June 30,
	-----	-----
Identifiable assets:		
Assisted care facility management (including receivable from . Parent company eliminated in consolidation)	\$ 562	\$
Real estate	6,772	
	-----	-----
	7,334	
	-----	-----

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

Reconciling items:	
Corporate cash, receivables and prepaid expenses (including receivable from subsidiary eliminated in consolidation)	3,412
Deferred tax assets--net	--
Elimination of intercompany receivables	(383)
Total assets per Consolidated Balance Sheet	\$ 10,363
	=====

The following table summarizes the Company's segment data of operations for the quarters and nine months ended March 31, 2003 and 2002 (in thousands):

	Quarter Ended March 31		Nine Months Ended March 31	
	2003	2002	2003	2002
Revenues:				
Assisted care management	\$ 94	\$ 60	247	\$ 190
Real estate	65	43	203	65
	159	103	450	255
 Reconciling items:				
Corporate interest income	10	14	35	59
Trust expense reimbursement	12	11	86	68
Other corporate revenue	--	--	--	7
	22	25	121	134
Total revenues per Statements of Consolidated				
Operations and Comprehensive Income (Loss)	\$ 181	\$ 128	571	\$ 389
 Operating income:				
Assisted care management	\$ 60	\$ 34	164	\$ 112
Real estate	63	1	197	20
	123	35	361	132
 Reconciling items:				
Corporate interest income	10	14	35	59
Trust expense reimbursement	12	11	86	68
Unallocated corporate expenses	(241)	(164)	(623)	(474)
Other	--	--	--	7
	(219)	(139)	(502)	(340)
Loss from operations before federal income tax expense per Statements of Consolidated Operations and Comprehensive Income (Loss)	\$ (96)	\$ (104)	(141)	\$ (208)

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, 2003 and 2002, were as follows (in thousands):

	Quarter Ended March 31		Nine Months Ended March 31	
	2003	2002	2003	2002
Operating income:				
Assisted care management	\$ 60	\$ 34	\$ 164	\$ 112
Real estate	63	1	197	20
	-----	-----	-----	-----
	123	35	361	132
	-----	-----	-----	-----
Other income and expenses:				
Interest income	10	14	35	59
Trust expense reimbursement income	12	11	86	68
Unallocated corporate expenses	(241)	(164)	(623)	(474)
Other	--	--	--	7
	-----	-----	-----	-----
	(219)	(139)	(502)	(340)
	-----	-----	-----	-----
Loss from operations before federal income tax	(96)	(104)	(141)	(208)
Federal income tax expense	--	--	1,908	--
	-----	-----	-----	-----
Net loss	\$ (96)	\$ (104)	\$ (2,049)	\$ (208)
	=====	=====	=====	=====

Assisted Care Management. The Company's operating income of the assisted care management operations for the quarter and nine months ended March 31, 2003 was approximately \$26,000 and \$52,000, respectively, higher than the same periods in the prior year. SHM manages and maintains an assisted care facility in Houston, Texas under a management agreement into which it entered on June 27,

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

1977 with Treemont, Inc. ("Treemont"). Under this agreement, SHM receives a fee based on gross revenues and a defined net income of Treemont. Refer to the Company's annual report on Form 10-K for the fiscal year ended June 30, 2002, for more information on the Company's assisted care business and management contract. The management fee received by Siena Housing Management, Inc. ("SHM"), a wholly-owned subsidiary of the Company, was higher in the quarter and nine months ended March 31, 2003, than in the same periods in the prior year by approximately \$34,000 and \$57,000, respectively, primarily as a result of lower debt payments (which are included in the defined net income calculation) offset by higher insurance expense reported by Treemont.

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. 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 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. In the first quarter of fiscal year 2002, SHM was informed that the owners of Treemont had signed an agreement to sell the property. In February 2003, the sale terminated on its own terms, however, the owners of Treemont renegotiated the contract with the same buyer in May 2003. The sales agreement has certain due diligence, financing and insurance requirements. As a result of these requirements, there can be no assurance that the sale transaction will, in fact, close.

12

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, 2003. 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, 2003, 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. With a continuing view towards maximizing shareholder value, management is attempting to have the one residential tract re-zoned as commercial.

The Company's strategy for its real estate holdings has been to attempt to increase the value of the property through the re-zoning of certain tracts. As previously reported, several of the re-zoning proposals were approved, specifically relocating the multifamily tract to a more accessible location in 1999, and changing the single family zoning to light industrial. In the fourth quarter of fiscal year 2001, five acres of the multi-family property were successfully re-zoned as light industrial.

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 Consolidated Financial Statements. In addition, Crow Family Holdings acquired outstanding options, which expired 18

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

months from the original sale date, to purchase substantially all the remaining light industrial property (approximately 77.2 acres). 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 taxes, reported as additional gain on the sale of real estate in the Company's Consolidated Financial Statements.

On February 22, 2002, the Company and Crow Family Holdings agreed to the First Amendment to Sale Contract (the "First Amendment") which extended 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 extended the option period to August 22, 2002, on all outstanding options. The Company received a \$125,000 non-refundable deposit, which was included in unearned income on the Company's Consolidated Balance Sheets as of June 30, 2002. On August 23, 2002, the Company was informed that Crow Family Holdings would not close on the transaction or exercise their options. Therefore, the Company recognized the \$125,000 as other real estate income reported in the Company's Statements of Consolidated Operations and Comprehensive Income (Loss) for the quarter ended September 30, 2002. In the second quarter of fiscal year 2003, Crow Family Holdings indicated that they no longer had an interest in entering into an agreement with the Company.

On February 10, 2003, the Company completed the sale of an easement over a portion of the light industrial property for a sewer line to the City of Fairview. The Company received proceeds of \$59,500 included in other real estate income in the Company's Statements of Consolidated Operations and Comprehensive Income (Loss) for the quarter ended March 31, 2003. The Company shall have the right to fully use the premises covered by the easement; however, it may not erect buildings over the easement tract.

The Company is currently marketing the property zoned for multifamily use, and continues to market the light industrial and commercial properties. During the past year, management has been disappointed in being unsuccessful in completing the sale of some of the properties; most notably, the agreement with Crow Family Holdings for the light industrial property. The Company is continuing to market the properties, even though the near-term outlook for commercial real estate is rather uncertain, due to the increasingly soft economic conditions, various customer project delays, and especially the suddenly depressed real estate market in the nearby Dallas telecom corridor. Management has also been considering the amount of time available to the Company to hold and maintain the various real estate assets given the new cost and operating environments that the Company finds itself in today. Management expects increased costs related to new legislation in the areas of public reporting and shareholder administration, legal, audit and liability insurance. These higher costs and lower revenue expectations directly affect the ability of the Company to carry the real estate assets for an extended period of time.

Due to these various changes discussed above, management believes that it is no longer "more likely than not" that the Company will be able to realize any benefit related to the deferred tax assets, net of the existing valuation allowance as of March 31, 2003 and December 31, 2002. In the quarter ended December 31, 2002, the Company reestablished the valuation allowance for pre-reorganization deferred tax assets by charging deferred federal income tax expense in the amount of \$1.908 million, which eliminated the net deferred tax asset balance included in the Company's Consolidated Balance Sheet. As of March 31, 2003 and June 30, 2002, the Company reported a net deferred tax asset balance of \$0 and \$1.908 million, respectively, included in long term assets on the Company's Consolidated Balance Sheets.

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

Real estate is carried at the fresh-start reporting value as of March 31, 1997, adjusted for improvements capitalized in accordance with the Company's capitalization policy. The Company's investment in real estate was reported as \$4.764 million and \$4.656 million as of March 31, 2003, and June 30, 2002, respectively, on the Company's Consolidated Balance Sheets. Even though there has been a decline in the market values as described above, the real estate investment amounts carried on the Company's Consolidated Balance Sheets are not deemed to be impaired as of March 31, 2003.

The real estate operating results for the third quarter in fiscal year 2003 were higher than the same quarter in fiscal year 2002 as a result of other real estate income recognized from the easement sale. The operating results for the nine months ended March 31, 2003, were higher than the nine months ended March 31, 2002, due to the recognition of \$125,000 as other real estate income in August 2002 and the easement sale in February 2003. In the nine months ended March 31, 2003, improvement costs of \$108,000 related to developing the property, primarily property taxes, were capitalized in accordance with the Company's capitalization policy, as compared to \$74,000 of costs that were capitalized during the nine months ended March 31, 2002. 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 \$12,000 and \$86,000 for the quarter and nine months ended March 31, 2003, respectively, as compared to \$11,000 and \$68,000 for the quarter and nine months ended March 31, 2002, respectively, for an overhead allocation based upon management's estimate of resources used by the Creditors' Trust. The allocation of overhead to the Creditors' Trust was slightly higher for the periods ended March 31, 2003, as a result of the additional work related to the final distribution and the liquidation of the trust. There will be no additional trust expense reimbursement income for the remainder of the fiscal year or thereafter. Interest income is slightly lower for the periods ended March 31, 2003, due to lower interest rates and a decrease in cash balances.

Other Expenses. Unallocated corporate expenses were higher at \$241,000 and \$623,000 for the quarter and nine months ended March 31, 2003, respectively, as compared to \$164,000 and \$474,000 for the quarter and nine months ended March 31, 2002, respectively. Specifically, this increase in unallocated corporate expenses was primarily attributable to: (1) higher consulting and legal fees of \$66,000 for the quarter primarily related to the proposed going private transaction by means of a reverse stock split; (2) officer's contracts were extended in December 2002 with increased compensation of \$23,000 year to date; (3) insurance premiums renewed in October 2002 have increased quarterly insurance expense by \$11,000 over the prior year; (4) incentive bonuses totaling \$18,000 paid in the first and third quarters of fiscal 2003 to directors and officers pursuant to existing compensation plans; and (5) directors' fees were \$10,000 higher due to two additional meetings held this fiscal year. Additionally, shareholder and public reporting expenses, other consulting and accounting fees were slightly higher, offset by reduced franchise tax expense. Unfortunately, a major factor in this increase of unallocated corporate expenses is directly related to the newly mandated Securities and Exchange Commission (the "SEC") requirements for public corporations, which will have a significant and noticeable unintended impact on smaller companies such as SHI. As reported, the Company has experienced and expects that it will continue to experience increased premiums for liability insurance and increased expenses for shareholder and public reporting, legal and auditing matters.

Federal Income Tax Expense. For the quarter and nine months ended March 31, 2003, SHI and its subsidiaries reported federal income tax expense of \$0 and \$1.908 million, respectively, and \$0 and \$0 for the quarter and nine months ended March 31, 2002, respectively. The federal income tax expense for the nine

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

months ended March 31, 2003, included \$1.908 million of deferred tax expense resulting from the reestablishment of the valuation allowance for pre-reorganization deferred tax assets. See "Note H - Federal Income Taxes" for further information.

14

Accrued Medical Insurance Premiums. In connection with the reorganization in March 1997, the Company agreed to assume the pre-petition liability to provide certain employees of a former subsidiary and their spouses with medical insurance. The total amount of the liability was estimated using a life expectancy age of 90, an annual health care cost increase rate of approximately 5% and a discount rate of approximately 6.5%. As of March 31, 2003 and June 30, 2002, the Company had an accrued liability established for payments to be made to 27 people to be used toward the payment of insurance. As of March 31, 2003 and June 30, 2002, the current portion of the accrual for medical insurance premiums is \$120,000 and \$81,000, respectively, and the long term liability amount, included in long term liabilities on the Company's Consolidated Balance Sheets, is \$352,000 and \$392,000, respectively. Most of the medical insurance premium payments have not been made since December 2001, but are included in current liabilities on the Company's Consolidated Balance Sheets, while the Company obtains and reviews the terms of the prepetition liabilities.

Proposed Reverse Stock Split. On February 13, 2003, the Company's Board of Directors approved the formation of a special committee of independent directors to explore a going private transaction by means of a reverse stock split. The contemplated transaction is subject to a number of conditions, including the approval of the transaction by the special committee, which will consist solely of independent members of the Board, the receipt of a fairness opinion from the financial advisor to the special committee that the proposed transaction is fair from a financial point of view to the Company's stockholders, and approval by the Company's stockholders. There is no assurance that the contemplated transaction will be completed.

Liquidity and Capital Resources

As of March 31, 2003, the only liabilities of the Company were accounts payable and accrued expenses which will be paid from current operating cash available as of March 31, 2003.

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 of the 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 changed in the quarter ended December 31, 2002, and could change again in the future based on the occurrence of one or more future events. See "Note H - Federal Income Taxes" for further information as to the change.

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

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

future events.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is subject to potential fluctuations in operations and the fair value of certain of its assets, as well as variations in expected cash flows due to changes in market interest rates and equity prices. 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. The investments had a fair market value of \$102,000 and \$197,000 as of March 31, 2003 and June 30, 2002, respectively, with an adjusted cost basis of \$176,000 for both periods. 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) loss included, net of tax, in accumulated other comprehensive (income) loss, a component of stockholders' equity. Realized gains (losses) are reported as revenue in the Company's Consolidated Statements of Consolidated Operations and Comprehensive Income (Loss). Realized losses for other than temporary decline in value are reported in the Company's Statements of Consolidated Operations and Comprehensive Income (Loss).

15

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. The Company's Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 240.13a - 14(c) and 15d - 14(c)) as of a date within 90 days before the filing date of this quarterly report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's current disclosure controls and procedures are effective and timely, providing them with material information relating to us required to be disclosed in the reports we file or submit under the Exchange Act.

Changes in Internal Controls. There have not been any significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation. We are not aware of any significant deficiencies or material weaknesses, therefore no corrective actions were taken.

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, 2002, 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:

Exhibit
Number

(99.1) Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

(99.2) Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K:

On February 11, 2003, the Company filed with the SEC a current report on Form 8-K relating to the termination of a sale agreement of the assisted care facility in Houston, Texas that is managed by Siena Housing Management Corp., which is discussed in further detail in the "Note E - Assisted Care Facility Management" footnote in this report.

On February 11, 2003, the Company filed with the SEC a current report on Form 8-K relating to the sale of an easement, which is discussed in further detail in the "Note D - Investment in Real Estate" footnote in this report.

On February 13, 2003, the Company filed with the SEC a current report on Form 8-K indicating the formation of a special committee of independent directors to explore a going private transaction by means of a reverse stock split, which is discussed in further detail in the "Note G - Stockholders' Equity" footnote in this report.

On March 17, 2003, the Company filed with the SEC a current report on Form 8-K relating to the termination of the LFC Creditors' Trust, which is discussed in further detail in the "Note C - Creditors' Trust" footnote 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: May 12, 2003

By: /S/ W. JOSEPH DRYER
President

Date: May 12, 2003

By: /S/ W. JOSEPH DRYER
Principal Accounting Officer

17

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
BY THE CHIEF EXECUTIVE OFFICER

I, John P. Kneafsey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Siena Holdings, Inc.;
2. Based on my knowledge, this quarterly report does not contain any

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

untrue statement of a material fact or omit to state a material fact, necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present, in all material respects, the financial condition, results of operations and cash flows of the registrant as of and for the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a - 14 and 15d - 14) for the registrant and we have:
 - a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

May 12, 2003

By /S/ JOHN P. KNEAFSEY
John P. Kneafsey
Chief Executive Officer

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
BY THE CHIEF FINANCIAL OFFICER

I, W. Joseph Dryer, certify that:

Edgar Filing: SIENA HOLDINGS INC - Form 10-Q

1. I have reviewed this quarterly report on Form 10-Q of Siena Holdings, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact, necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present, in all material respects, the financial condition, results of operations and cash flows of the registrant as of and for the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a - 14 and 15d - 14) for the registrant and we have:
 - a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

May 12, 2003

By /S/ W. JOSEPH DRYER
W. Joseph Dryer
Chief Financial Officer