

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

NEWMARK HOMES CORP
Form 10-Q
August 13, 2001

1

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2001

OR

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER: 000-23677

NEWMARK HOMES CORP.

(Exact name of Registrant as specified in its charter)

Delaware	76-0460831
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1200 Soldiers Field Drive
Sugar Land, TX 77479
(Address of principal executive offices) (Zip code)

281-243-0100
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address, and former fiscal year, if changed since last
report)

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 REGISTRANTS 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 Section 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 ☐

APPLICABLE ONLY TO CORPORATE REGISTRANTS

Indicate the number of shares outstanding of each of the registrant's
classes of common stock, as of the latest practicable date.

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

Title	Outstanding
Common Stock, par value \$.01	11,500,000 shares as of June 30, 2001

2

NEWMARK HOMES CORP. INDEX

PART I.	Financial Information.....
ITEM 1.	Financial Statements.....
	Condensed Consolidated Statements of Financial Position.....
	Condensed Consolidated Statements of Operations.....
	Condensed Consolidated Statements of Stockholders' Equity.....
	Condensed Consolidated Statements of Cash Flows.....
	Notes to the Condensed Consolidated Financial Statements.....
ITEM 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....
ITEM 3.	Changes in Information About Market Risk.....
PART II.	Other Information.....
ITEM 1.	Legal Proceedings.....
ITEM 2.	Changes in Securities.....
ITEM 3.	Defaults Upon Senior Securities.....
ITEM 4.	Submission of Matters to a Vote of Security Holders.....
ITEM 5.	Other Information.....
ITEM 6.	Exhibits and Reports on Form 8-K.....
	Exhibits.....
	Reports on Form 8-K.....
	Signatures.....

3

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

NEWMARK HOMES CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

ASSETS		JUNE 30, 2001

		(unaudited)
Cash		\$ 7,235
Receivables.....		12,692
Inventory.....		264,546
Investment in unconsolidated subsidiaries.....		2,141
Other assets, net.....		12,301
Goodwill, net of accumulated amortization of \$2,365 and \$1,594 in 2001 and 2000, respectively.....		44,584

Total assets.....		\$343,499
		=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Construction loans payable.....		\$144,242
Acquisition notes payable.....		7,370
Other payables to affiliates.....		1,564
Accounts payable and accrued liabilities.....		29,257
Other liabilities.....		19,552

Total liabilities.....		\$201,985

Minority interest in consolidated subsidiaries.....		99
Stockholders' equity:		
Common stock -- \$.01 par value; 30,000,000 shares authorized, 11,500,000 shares issued and outstanding.....		115
Additional paid-in capital.....		106,855
Retained earnings.....		34,445

Total stockholders' equity.....		141,415

Total liabilities and stockholders' equity.....		\$343,499
		=====

See accompanying notes to the condensed consolidated financial statements.

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

Revenues.....	\$ 155,565	
Cost of sales.....	126,420	

Gross profit.....	29,145	
Equity in earnings from unconsolidated subsidiaries.....	175	
Selling, general and administrative expenses.....	(17,023)	
Depreciation and amortization.....	(1,286)	

Operating income.....	11,011	
Other income (expense):		
Interest expense.....	(554)	
Other income, net.....	213	
Minority interest in consolidated subsidiaries.....	(99)	

Income before income taxes.....	10,571	
Income taxes.....	3,308	

Net income.....	\$ 7,263	
	=====	
Earnings per common share:		
Basic.....	\$ 0.63	
	=====	
Diluted.....	\$ 0.63	
	=====	
Weighted average number of shares of common stock equivalents outstanding:		
Basic.....	11,500,000	
	=====	
Diluted.....	11,500,000	
	=====	

See accompanying notes to the condensed consolidated financial statements.

4

5

NEWMARK HOMES CORP. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS) (UNAUDITED)

		SIX MONTHS ENDED JUNE 30	
	-----		-----
	2001		
	-----		-----
Revenues.....	\$288,381		\$
Cost of sales.....	233,384		
	-----		-----
Gross profit.....	54,997		
Equity in earnings from unconsolidated subsidiaries.....	330		
Selling, general and administrative expenses.....	(32,995)		
Depreciation and amortization.....	(2,469)		

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

Operating income.....	19,863	
Other income (expense):		
Interest expense.....	(1,629)	
Other income, net.....	221	
Minority interest in consolidated subsidiaries.....	(99)	
Income before income taxes.....	18,356	
Income taxes.....	6,040	
Net income.....	\$ 12,316	\$
Earnings per common share:		
Basic.....	\$1.07	
Diluted.....	\$1.07	
Weighted average number of shares of common stock equivalents outstanding:		
Basic.....	11,500,000	11,
Diluted.....	11,500,000	11,

See accompanying notes to the condensed consolidated financial statements.

5

6

NEWMARK HOMES CORP. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) (UNAUDITED)

	Common Stock	Additional Paid-In Capital	Retained Earnings
Balance, December 31, 2000.....	\$ 115	\$106,855	\$ 28,339
Net Income.....	--	--	12,316
Dividends paid (\$0.54 per share).....	--	--	(6,210)
Balance, June 30, 2001	\$ 115	\$106,855	\$ 34,445

See accompanying notes to the condensed consolidated financial statements.

6

7

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

NEWMARK HOMES CORP. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (IN THOUSANDS) (UNAUDITED)

	SIX MONTHS ENDED JUNE 30,	
	2001	
Cash flows from operating activities:		
Net income.....	\$12,316	
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization.....	2,470	
Net (gain) loss on sale of property, premises and equipment....	85	
Equity in earnings from unconsolidated subsidiaries.....	(330)	
Minority interest in consolidated subsidiaries.....	99	
Changes in operating assets and liabilities:		
Inventory and land held for development, net.....	(17,681)	
Receivables.....	2,086	
Other assets.....	(2,269)	
Payable to affiliates.....	864	
Accounts payable and accrued liabilities.....	(4,580)	
Other liabilities.....	3,855	
Net cash provided (used) in operating activities.....	(3,085)	
Cash flows from investing activities:		
Purchases of property, premises and equipment.....	(1,752)	
Proceeds from sales of property, premises and equipment.....	103	
Decrease in goodwill.....	--	
Investment in unconsolidated subsidiaries.....	(172)	
Distributions from unconsolidated subsidiaries.....	566	
Net cash used in investing activities.....	(1,255)	
Cash flows from financing activities:		
Proceeds from advances on construction loans payable.....	136,946	
Principal payments on construction loans payable.....	(120,250)	
Principal payments on acquisition notes payable.....	(3,685)	
Dividends paid.....	(6,210)	
Net cash provided by financing activities.....	6,801	
Increase (decrease) in cash.....	2,461	
Cash, beginning of period.....	4,774	
Cash, end of period.....	\$7,235	
Supplemental disclosures of cash flow information: Cash paid for:		
Interest.....	\$7,009	
Income taxes.....	\$5,801	

See accompanying notes to the condensed consolidated financial statements.

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

7

8

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Newmark Homes Corp. and subsidiaries (the "Company") is an 80% owned subsidiary of Technical Olympic USA, Inc. ("TOUSA") as of December 15, 1999. The Company was formed in December 1994 to serve as a real estate holding company.

The Company's primary subsidiaries are as follows:

SUBSIDIARY -----	NATURE OF BUSINESS -----
Newmark Home Corporation ("Newmark").....	Single-family residential homebuilding Tennessee and North Carolina - formed in 1983.
Westbrooke Communities, Inc. ("Westbrooke").....	Single-family residential homebuilding and lot developer in South Florida - formed in 197
Pacific United Development Corporation ("PUDC").....	Residential lot development in Texas and T formed in 1993.

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the Company and its subsidiaries. The accounting and reporting policies of the Company conform to generally accepted accounting principles and general practices within the homebuilding industry. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

The preparation of financial statements in accordance 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.

INTERIM PRESENTATION

The accompanying condensed consolidated financial statements have been prepared by the Company and are unaudited. Certain information and footnote disclosures normally included in financial statements presented in accordance with generally accepted accounting principles have been omitted from the accompanying statements. The Company's management believes the disclosures made are adequate to make the information presented not misleading. However, the financial statements included as part of this 10-Q filing should be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 2000 Annual Report on Form 10-K. The accompanying unaudited consolidated financial statements reflect all adjustments that, in the opinion of the management of the Company, are considered necessary for a fair presentation of the financial position, results from operations and cash flows for the periods presented. Results of operations achieved through June 30, 2001 are not necessarily indicative of those which may be achieved for the year ended

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

December 31, 2001.

NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board finalized FASB Statements No. 141, Business Combinations (SFAS 141), and No. 142, Goodwill and Other Intangible Assets (SFAS 142). SFAS 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001. SFAS 141 also requires that the Company recognize acquired intangible assets apart from goodwill if the acquired intangible assets meet certain criteria. SFAS 141 applies to all business combinations initiated after June 30, 2001 and for purchase business combinations completed on or after July 1, 2001. It also requires, upon adoption of SFAS 142, that the Company reclassify the carrying amounts of intangible assets and goodwill based on the criteria in SFAS 141.

8

9

SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS 142 requires that the Company identify reporting units for the purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. An intangible asset with an indefinite useful life should be tested for impairment in accordance with the guidance in SFAS 142. SFAS 142 is required to be applied in fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized at that date, regardless of when those assets were initially recognized. SFAS 142 requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. The Company is also required to reassess the useful lives of other intangible assets within the first interim quarter after adoption of SFAS 142.

The Company's previous business combinations were accounted for using the purchase method. As of June 30, 2001, the net carrying amount of goodwill is \$44.6 million. Amortization expenses during the six-month period ended June 30, 2001 was \$0.8 million. Currently, the Company is assessing but has not yet determined how the adoption of SFAS 141 and SFAS 142 will impact its financial position and results of operation.

EARNINGS PER SHARE

Basic Earnings Per Share is computed by dividing earnings attributable to common shareholders by the weighted average number of common shares outstanding for the period. Diluted Earnings Per Share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. The following table reconciles the computation of basic and diluted Earnings Per Share for the three months ended June 30, 2001 and 2000 and for the six months ended June 30, 2001 and 2000 (in thousands, except per share amounts):

THREE MONTHS ENDED JUNE 30,		SIX MON
2001	2000	2001

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

Income available to common shareholders (numerator).....	\$7,263	\$6,580	\$12,3
Weighted average of shares outstanding (denominator).....	11,500	11,500	11,5
	-----	-----	-----
Basic and diluted Earnings Per Share.....	\$0.63	\$0.57	\$1.
	=====	=====	=====
Diluted Earnings Per Share	\$0.63	\$0.57	\$1.
	=====	=====	=====

9

10 Note 2. INVENTORY

Inventory balances as of June 30, 2001 and December 31, 2000 consist of the following:

	Number of Homes		Ca (i
	June 30, 2001	December 31, 2000	June 30, 2001
	-----	-----	-----
Completed	155	178	\$36,636
Under construction	1,074	824	137,683
Models	75	73	17,488
Residential lots.....	--	--	72,739
	-----	-----	-----
Total.....	1,304	1,075	\$264,546
	=====	=====	=====

NOTE 3. CAPITALIZED INTEREST

A summary of interest capitalized in inventory is as follows (in thousands):

	THREE MONTHS ENDED JUNE 30,		SIX MONT
	2001	2000	2001
	-----	-----	-----
Interest capitalized, beginning of period.....	\$7,279	\$6,873	\$6,917
Interest incurred.....	2,746	3,991	6,439
Less interest included in:			
Cost of Sales.....	3,230	3,168	5,486
Other income (expense)	554	845	1,629
	-----	-----	-----
Interest capitalized,			

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

end of period.....	\$6,241	\$6,851	\$6,241
	-----	-----	-----

NOTE 4. COMMITMENTS AND CONTINGENCIES

The Company is subject to certain pending or threatened litigation and other claims. Management, after review and consultation with legal counsel, believes the Company has meritorious defenses to these matters and that any potential liability from these matters would not materially affect the Company's consolidated financial statements.

NOTE 5. CONSOLIDATED JOINT VENTURES

The Company acquired a 75% interest in Silver Oak Trails, L.P., a land development joint venture for a net initial investment of \$2.9 million. The operations of Silver Oak Trails, L.P. are consolidated with the operations of the Company. Silver Oak Trails, L.P. earned \$0.4 million of which \$0.1 million is minority interest in the earnings on a land sale transaction during the three months ending June 30, 2001.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended and the Private Securities Litigation Reform Act of 1995. Such matters involve risks and uncertainties, including the Company's exposure to certain market risks, changes in economic conditions, tax and interest rates, increases in raw material and labor costs, weather conditions, and general competitive factors that may cause actual results to differ materially.

10

11 RESULTS OF OPERATIONS

The following tables set forth certain operating and financial data for the Company:

	NEW SALES CONTRACTS, NET OF CANCELLATIONS		
	THREE MONTHS ENDED JUNE 30,		TH
	2001	2000	END
	----	----	----
Houston.....	157	167	
Austin.....	83	162	
Dallas/Ft. Worth.....	26	47	
San Antonio.....	26	8	
Ft. Lauderdale, Palm Beach, Miami.....	246	248	
Nashville.....	24	22	
Charlotte.....	9	3	

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

Greensboro/Winston-Salem.....	5	6	
	-----	-----	---
Total	576	663	---
	-----	-----	---

	NEW SALES CONTRACTS, NET OF CANCELLATIONS		HOME CLOSINGS	
	SIX MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
	----	----	----	----
Houston.....	358	332	265	295
Austin.....	190	349	247	325
Dallas/Ft. Worth.....	72	85	79	73
San Antonio.....	52	20	38	14
Ft. Lauderdale, Palm Beach, Miami.....	536	421	341	428
Nashville.....	77	53	49	42
Charlotte.....	13	8	5	6
Greensboro/Winston-Salem.....	10	12	13	13
	-----	-----	-----	-----
Total	1,308	1,280	1,037	1,196
	-----	-----	-----	-----

11

12

	AS A PERCENTAGE OF REVENUE		AS A P
	THREE MONTHS ENDED JUNE 30,		S END
	2001	2000	2001
	----	----	----
Cost of Sales.....	81.3%	82.6%	80.9%
Gross Profit.....	18.7%	17.4%	19.1%
Selling, general and administrative expenses.....	10.9%	10.2%	11.4%
Income before income taxes.....	6.8%	6.3%	6.4%
Income taxes (1).....	31.3%	36.0%	32.9%
Net income.....	4.7%	4.0%	4.3%

(1) As a percent of income before income taxes.

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

THREE MONTHS ENDED JUNE 30, 2001 COMPARED TO THREE MONTHS ENDED JUNE 30, 2000

Revenues decreased by 5.4% to \$155.6 million in the three months ending June 30, 2001 from \$164.5 million in the three months ending June 30, 2000 due to the net effect of a decrease in units closed, an increase in the average selling price and an increase in land sales. The number of homes closed by the Company decreased by 10.1% to 569 homes in the three months ending June 30, 2001 from 633 homes in the three months ending June 30, 2000. The Company's average selling price of homes closed in the three months ending June 30, 2001 was \$267,985, an increase of 3.9% from the \$257,929 average selling price in the three months ending June 30, 2000 due to product mix within the subdivisions closing homes. The average selling price of a Newmark(R) home closed in the three months ending June 30, 2001 was \$272,444, an increase of 6.3% from the \$256,411 average selling price in the three months ending June 30, 2000. The Fedrick, Harris Estate Homes average selling price of homes closed in the three months ending June 30, 2001 was \$479,978, an increase of 0.7% from the \$476,640 average selling price in the three months ending June 30, 2000. In the South Florida market, Westbrooke's average selling price of homes closed in the three months ending June 30, 2001 was \$208,514, an increase of 2.6% from the \$203,237 average selling price in the three months ending June 30, 2000. In addition, revenue from land sales in the three months ending June 30, 2001 increased to \$3.1 million from \$1.2 million in the three months ending June 30, 2000.

New net sales contracts decreased 13.1% to 576 homes for the three months ended June 30, 2001 from 663 homes for the three months ended June 30, 2000. The dollar amount of new net sales contracts decreased 6.9% to \$156.2 million.

The Company was operating in 90 subdivisions at June 30, 2001 compared to 79 subdivisions at June 30, 2000. As of June 30, 2001, the Company's backlog of sales contracts was 1,116 homes, a 3.1% increase over comparable figures at June 30, 2000.

Cost of sales decreased by 6.9% to \$126.4 million in the three months ended June 30, 2001 from \$135.8 million in the comparable period of 2000. The decrease was attributable to the decrease in revenues as described above. Cost of land sales for the three months ended June 30, 2001 increased to \$2.9 million from \$1.2 million for the comparable period of 2000. As a percentage of revenues, cost of sales for the three months ended June 30, 2001 decreased to 81.3% in 2001 from 82.6% in 2000.

Selling, general and administrative ("SG&A") expense increased by 1.6% to \$17.0 million in the three months ended June 30, 2001, from \$16.8 million in the comparable period of 2000. The increase was primarily caused by increased construction and sales activity in the new markets of Nashville, Tennessee; Charlotte and Greensboro, North Carolina as well as in the Company's existing Texas and Florida markets, as indicated by the increase in the backlog and the 3.7% increase in the homes under construction at the end of June 2001 versus June 2000. As a percentage of revenues, SG&A expense increased to 10.9% in the three months ended June 30, 2001 from 10.2% in the comparable period of 2000.

Interest expense, net of interest capitalized, decreased slightly to \$0.6 million in the three months ended June 30, 2001 from \$0.8 million in the comparable period of 2000. The Company follows a policy of capitalizing interest only on inventory under construction or development. During the three months

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

ended June 30, 2001 and 2000, the Company expensed a portion of interest incurred and other financing costs on those completed homes held in inventory. This expense decreased due to the decrease in the average number of completed homes held in inventory for the quarter ending June 30, 2001. However, this decrease was offset by the increase in interest on certain acquisition notes pursuant to the Second Amendment to Stock Purchase Agreement and the related Amended and Restated Note Agreements. Capitalized interest and other financing costs are included in cost of sales at the time of home closings.

The Company's provision for income taxes decreased as a percentage of earnings before taxes to 31.3% for the three months ending June 30, 2001 compared to 36.0% for the three months ending June 30, 2000. The decrease was primarily a result of decreased state taxes resulting from credits earned due to the deconsolidation from combined Florida State reporting. The Company recognized federal income tax expense amounting to \$3.5 million for the three months ending June 30, 2001 compared to \$3.6 million for the three months ending June 30, 2000.

Net income increased by 10.4% to \$7.3 million in the three months ended June 30, 2001, from \$6.6 million in the comparable period of 2000. The increase was attributable to the increase in revenues in the company's most profitable markets.

SIX MONTHS ENDED JUNE 30, 2001 COMPARED TO SIX MONTHS ENDED JUNE 30, 2000

Revenues decreased by 4.3% to \$288.4 million in the six months ending June 30, 2001 from \$301.5 million in the six months ending June 30, 2000 due to the net effect of a decrease in units closed, an increase in the average selling price and an increase in land sales. The number of homes closed by the Company decreased by 13.3% to 1,037 homes in the six months ending June 30, 2001 from 1,196 homes in the six months ending June 30, 2000. The Company's average selling price of homes closed in the six months ending June 30, 2001 was \$266,655, an increase of 6.8% from the \$249,700 average selling price in the six months ending June 30, 2000 due to product mix within the subdivisions closing homes. The average selling price of a Newmark(R) home closed in the six months ending June 30, 2001 was \$267,321, an increase of 6.7% from the \$250,477 average selling price in the six months ending June 30, 2000. The Fedrick, Harris Estate Homes average selling price of homes closed in the six months ending June 30, 2001 was \$479,636, an increase of 4.6% from the \$458,705 average selling price in the six months ending June 30, 2000. In the South Florida market, Westbrooke's average selling price of homes closed in the six months ending June 30, 2001 was \$208,015, an increase of 3.4% from the \$201,116 average selling price in the six months ending June 30, 2000. In addition, revenue from land sales in the six months ending June 30, 2001 increased to \$11.9 million from \$2.8 million in the six months ending June 30, 2000.

New net sales contracts increased 2.2% to 1,308 homes for the six months ended June 30, 2001 from 1,280 homes for the six months ended June 30, 2000. The dollar amount of new net sales contracts increased 4.2% to \$345.0 million.

Cost of sales decreased by 6.5% to \$233.4 million in the six months ended June 30, 2001 from \$249.5 million in the comparable period of 2000. The decrease was attributable to the decrease in revenues as described above. Cost of land sales for the six months ended June 30, 2001 increased to \$8.9 million from \$2.6 million for the comparable period of 2000. As a percentage of revenues, cost of sales for the six months ended June 30, 2001 decreased to 80.9% in 2001 from 82.8% in 2000.

Selling, general and administrative ("SG&A") expense increased by 8.8% to \$33.0 million in the six months ended June 30, 2001, from \$30.3 million in the comparable period of 2000. The increase was primarily caused by increased construction and sales activity in the new markets of Nashville, Tennessee;

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

Charlotte and Greensboro, North Carolina as well as in the Company's existing Texas and Florida markets, as indicated by the increase in the backlog and the 3.7% increase in the homes under construction at the end of June 2001 versus June 2000. As a percentage of revenues, SG&A expense increased to 11.4% in the six months ended June 30, 2001 from 10.1% in the comparable period of 2000.

Interest expense, net of interest capitalized, remained consistent at \$1.6 million for the six months ended June 30, 2001 and 2000. The Company follows a policy of capitalizing interest only on inventory under construction or development. During the six months ended June 30, 2001 and 2000, the Company

13

14

expensed a portion of interest incurred and other financing costs on those completed homes held in inventory. This expense decreased due to the decrease in the average number of completed homes held in inventory for the six months ending June 30, 2001. However, this decrease was offset by the increase in interest on certain acquisition notes pursuant to the Second Amendment to Stock Purchase Agreement and the related Amended and Restated Note Agreements. Capitalized interest and other financing costs are included in cost of sales at the time of home closings.

The Company's provision for income taxes decreased as a percentage of earnings before taxes to 32.9% for the six months ending June 30, 2001 compared to 36.0% for the six months ending June 30, 2000. The decrease was primarily a result of decreased state taxes resulting from credits earned due to the deconsolidation from combined Florida State reporting. The Company recognized federal income tax expense amounting to \$6.1 million for the six months ending June 30, 2001 compared to \$6.4 million for the six months ending June 30, 2000.

Net income increased by 3.5% to \$12.3 million in the six months ended June 30, 2001, from \$11.9 million in the comparable period of 2000. The increase was attributable to the increase in revenues in the company's most profitable markets.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2001, the Company had available cash and cash equivalents of \$7.2 million. Inventories (including finished homes and construction in progress, developed residential lots and other land) at June 30, 2001 increased by \$17.7 million from \$246.7 million at December 31, 2000 due to a general increase in business activity and the expansion of operations in the newer market areas. Because of increased business activity and expansion of operations in the newer markets, the Company's ratio of construction loans payable to total capital assets increased to 52.8% at June 30, 2001 from 50.5% at December 31, 2000. The equity to total assets ratio decreased during the three months to 41.2% at June 30, 2001 from 41.7% at December 31, 2000 primarily due to the dividends paid of \$6.2 million during the six months ending June 30, 2001.

The Company's financing needs depend upon the results of its operations, sales volume, inventory levels, inventory turnover, and acquisitions. The Company has financed its operations through borrowings from financial institutions and through funds from earnings.

At June 30, 2001, the Company had lines of credit commitments for construction loans totaling approximately \$245.2 million, of which \$26.2 million was available to draw down.

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

The Company's growth requires significant amounts of cash. It is anticipated that future home construction, lot and land purchases and acquisitions will be funded through internally generated funds and new and existing borrowing relationships. The Company continuously evaluates its capital structure and, in the future, may seek to further increase secured debt and obtain additional equity to fund ongoing operations as well as to pursue additional growth opportunities.

Except for ordinary expenditures for the construction of homes and, to a limited extent, the acquisition of land and lots for development and sale of homes, at June 30, 2001, the Company had no material commitments for capital expenditures.

14

15

SEASONALITY AND QUARTERLY RESULTS

The homebuilding industry is seasonal, as generally there are more sales in the spring and summer months, resulting in more home closings in the fall. The Company operates in the Southwestern and Southeastern markets of the United States, where weather conditions are more suitable to a year-round construction process than other areas. The Company also believes its geographic diversity to be somewhat counter-cyclical, with adverse economic conditions associated with certain of its markets often being offset by more favorable economic conditions in other markets. The seasonality of school terms has an impact on the Company operations, but it is somewhat mitigated by the fact that many of the Company's buyers at the higher end of the Company's price range, including Fedrick, Harris Estate Homes, no longer have children in school. As a result of these factors, among others, the Company generally experiences more sales in the spring and summer months, and more closings in the summer and fall months. Likewise, Westbrooke has experienced seasonality in its revenues, generally completing more sales in the spring and summer months and more closings in the fourth quarter.

The Company historically has experienced, and in the future expects to continue to experience, variability in revenues on a quarterly basis. Factors expected to contribute to the variability include, among others: (i) the timing of home closings; (ii) the Company's ability to continue to acquire land and options on acceptable terms; (iii) the timing of receipt of regulatory approvals for the construction of homes; (iv) the condition of the real estate market and general economic conditions; (v) the cyclical nature of the homebuilding industry; (vi) prevailing interest rates and the availability of mortgage financing; (vii) pricing policies of the Company's competitors; (viii) the timing of the opening of new residential projects; (ix) weather; and (x) the cost and availability of materials and labor. The Company's historical financial performance is not necessarily a meaningful indicator of future results and the Company expects its financial results to vary from project to project and from quarter to quarter.

Although the Company's results for the six months ended June 30, 2001 are comparable to results for the six months ended June 30, 2000, the Company expects that certain of its home building markets (such as Austin, Texas) which contributed significantly to the Company's favorable results in fiscal 2000 and for the six months ended June 30, 2001 may be softer in the second half of fiscal 2001. The Company cannot, at this time, determine the full impact on future home sales, revenues and income of the Company from any significant decline in these key markets.

ITEM 3. CHANGES IN INFORMATION ABOUT MARKET RISK

The Company is exposed to market risk primarily related to potential adverse

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

changes in interest rates as discussed below. The Company does not enter into, or intend to enter into, derivative financial instruments for trading or speculative purposes. The Company's exposure to market risks is changes to interest rates related to the Company's construction loans. The interest rates relative to the Company's construction loans fluctuate with the prime and Libor lending rates, both upwards and downwards.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of the Company's management, the ultimate disposition of these matters is not expected to have a material adverse effect on the financial condition or results of operations of the Company.

Subsequent to the press release of the Company on March 5, 2001 of a possible merger of Engle Holdings Corp. with the Company, the Company was notified of the filing of two lawsuits, Case No. A431555; Barry Feldman v. Michael J. Poulos, Yannis Delikanakis, Michael S. Stevens, Constantinos Stengos, George Stengos, Andreas Stengos, James M. Carr, William A. Hasler, Larry D. Horner, Lonnie M. Fedrick, Engle Holdings Corp. and Newmark Homes Corp.; In the District Court, Clark County, Nevada; and Cause No. 2001-14194; Michael Gormley v. Michael J. Poulos, Yannis Delikanakis, Michael S. Stevens, Constantinos Stengos, George Stengos, Andreas Stengos, James M. Carr, William A. Hasler,

15

16

Larry D. Horner, Lonnie M. Fedrick, Engle Holdings Corp. and Newmark Homes Corp; In the 80th Judicial District Court of Harris County, Texas, challenging any transaction between the Company and Engle Holdings as a violation of fiduciary duty. Given the fact that there is no transaction agreed to between the Company and Engle, the Company believes the lawsuits are without merit, and the Company intends to vigorously defend itself and its directors.

ITEM 2. CHANGES IN SECURITIES

None. No disclosure required.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None. No disclosure required

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None. No disclosure required

ITEM 5. OTHER INFORMATION

None. No disclosure required.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a.) Exhibits.

Exhibit Number	Exhibit
-----	-----

None.

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

(b) Reports on Form 8-K.

The registrant filed no reports on Form 8-K during the quarter ended June 30, 2001.

16

17

SIGNATURES

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

NEWMARK HOMES CORP.

August 10, 2001

By: /s/ Terry C. White

Terry C. White, Senior Vice President, Chief
Financial Officer, Treasurer and Secretary

17