

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

NEWMARK HOMES CORP  
Form 10-Q  
May 15, 2002

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 March 31, 2002

OR

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

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

COMMISSION FILE NUMBER: 000-23677

NEWMARK HOMES CORP.

(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

76-0460831  
(I.R.S. Employer  
Identification No.)

1200 Soldiers Field Drive  
Sugar Land, Texas 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 X 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

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

-----  
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.

Title	Outstanding
Common Stock, par value \$0.01	11,500,000 shares as of March 31, 2002

2

NEWMARK HOMES CORP.

INDEX

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

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

3

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Newmark Homes Corp. and Subsidiaries

Consolidated Statements of Financial Condition

(In thousands, except share amounts)  
(unaudited)

	MARCH 31, 2002 -----	DECEMBER 2001 -----
<b>ASSETS</b>		
Cash and cash equivalents .....	\$ 11,878	\$ 9,
Inventory .....	165,746	162,
Property, premises and equipment, net of accumulated depreciation of \$6,925 and \$6,321 in 2002 and 2001, respectively .....	5,859	5,
Other assets .....	8,599	4,
Goodwill, net of accumulated amortization of \$3,136 in 2002 and 2001 .....	42,914	42,
Westbrooke assets held for sale .....	100,993	117,
	-----	-----
Total assets .....	\$335,989	\$342,
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable and accrued liabilities .....	\$ 16,928	\$ 15,
Customer deposits .....	4,519	3,
Construction loans payable .....	91,377	87,
Acquisition notes payable .....	3,685	5,
Other liabilities .....	1,264	4,
Westbrooke liabilities associated with assets held for sale .....	60,640	71,
	-----	-----
Total liabilities .....	178,413	188,
Minority interest in consolidated subsidiaries .....	99	
Commitments and contingencies .....	--	
<b>Stockholders' equity:</b>		
Common stock--\$.01 par value; 30,000,000 shares authorized and 11,500,000 shares issued and outstanding .....	115	
Additional paid-in capital .....	106,855	106,
Retained earnings .....	50,507	46,
	-----	-----
Total stockholders' equity .....	157,477	153,
	-----	-----
Total liabilities and stockholders' equity .....	\$335,989	\$342,
	=====	=====

## Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

See accompanying notes.

4

### Newmark Homes Corp. and Subsidiaries

#### Consolidated Statements of Income

(In thousands, except share amounts)  
(unaudited)

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
Revenues .....	\$ 84,656	\$ 95,900
Cost of sales .....	68,571	75,902
Gross profit .....	16,085	19,998
Equity in earnings from unconsolidated subsidiaries .....	268	140
Selling, general and administrative expenses .....	(11,685)	(12,466)
Depreciation and amortization .....	(192)	(594)
Operating income .....	4,476	7,078
Other income (expense):		
Interest expense .....	(67)	(1,075)
Other, net .....	8	(128)
Income from continuing operations before income taxes .....	4,417	5,875
Income taxes .....	1,393	2,001
Income from continuing operations .....	3,024	3,874
Discontinued operations:		
Income from discontinued operations .....	1,044	1,910
Income taxes .....	403	731
Income from discontinued operations, net of tax ..	641	1,179
Net income .....	\$ 3,665	\$ 5,053
Earnings per common share (basic and diluted):		
From continuing operations .....	\$ 0.26	\$ 0.34
From discontinued operations .....	0.06	0.10
Net income .....	\$ 0.32	\$ 0.44
Weighted average number of common shares outstanding:		
Basic and diluted .....	11,500,000	11,500,000

See accompanying notes.

Newmark Homes Corp. and Subsidiaries  
 Consolidated Statements of Cash Flows

(In thousands)  
 (unaudited)

Cash flows from operating activities:

Net income .....	
Adjustments to reconcile net income to net cash provided by (used in)	
operating activities:	
Income from discontinued operations .....	
Depreciation and amortization .....	
Net (gain) loss on sale of property, premises and equipment .....	
Equity in earnings from unconsolidated subsidiaries .....	
Changes in operating assets and liabilities:	
Inventory and land held for development, net .....	
Receivables .....	
Other assets .....	
Payable to affiliates .....	
Accounts payable and accrued liabilities .....	
Other liabilities .....	
Net cash provided by (used in) operating activities .....	

Cash flows from investing activities:

Purchases of property, premises and equipment .....	
Proceeds from sales of property, premises and equipment .....	
Investment in unconsolidated subsidiaries .....	
Distributions from unconsolidated subsidiaries .....	
Net cash used in investing activities .....	

Cash flows from financing activities:

Proceeds from advances on construction loans payable .....	
Principal payments on construction loans payable .....	
Principal payments on acquisition notes payable .....	
Dividends .....	
Net cash provided by financing activities .....	

Net cash provided by operations .....	
Net cash provided by discontinued operations .....	
Increase in cash .....	
Cash and cash equivalents, beginning of period .....	

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

Cash and cash equivalents, end of period .....	\$
Supplemental disclosures of cash flow information: Cash paid for:	
Interest .....	\$
Income taxes .....	\$

See accompanying notes to the condensed consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

ORGANIZATION

Newmark Homes Corp. and subsidiaries (the "Company") is an 80% owned subsidiary of Technical Olympic, Inc. ("TOI"). On December 15, 1999, TOI acquired 80% of the Company in a stock purchase transaction. 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 Homes Corporation ("Newmark").....	Designs, builds and markets single-family in Texas, Tennessee and North Carolina -
Westbrooke Companies, Inc. ("Westbrooke").....	Designs, builds and markets single-family and develops residential lots in South FL 1976
Pacific United Development Corporation ("PUDC").....	Develops residential lots in Texas and Te 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 accounting principles generally accepted in the United States 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 accounting principles generally accepted in the United States 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

## Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

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 accounting principles generally accepted in the United States 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, 2001 Annual Report on Form 10-K. The accompanying unaudited consolidated financial statements reflect all adjustments, consisting primarily of normal recurring items 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 March 31, 2002 are not necessarily indicative of those which may be achieved for the year ended December 31, 2002.

7

### 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.

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.

The Company adopted SFAS 142 on January 1, 2002. The impairment test of goodwill performed by the Company at January 1, 2002 indicated no impairment. Application of the provisions of SFAS 142 by the Company resulted in the elimination of goodwill amortization expense in the first quarter of 2002. Results reported for the first quarter of 2001 included after tax goodwill amortization expense of \$0.4 million. Elimination of this amortization expense would have resulted in net income of \$5.4 million for the three months ended March 31, 2001 and an increase of \$0.03 in both basic and diluted earnings per share from the amounts reported to \$0.47.

8

### RECLASSIFICATION

Certain reclassifications have been made to conform the prior year's amounts to the current year's presentation.

## Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

### NOTE 2. INVENTORY

Inventory balances at March 31, 2002 and December 31, 2001 consist of the following (in thousands):

	MARCH 31, 2002	DECEMBER 31, 2001
	-----	-----
Lots and land held for development .....	\$ 41,591	\$ 49,223
Residences completed and under construction	113,223	102,542
Models .....	10,932	10,468
	-----	-----
Total .....	\$ 165,746	\$ 162,233
	=====	=====

### NOTE 3. CAPITALIZED INTEREST

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

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
	-----	-----
Interest capitalized, beginning		
of period .....	\$ 2,792	\$ 2,063
Interest incurred .....	1,094	2,286
Less interest included in:		
Cost of sales .....	801	1,335
Interest expense .....	67	1,075
	-----	-----
Interest capitalized, end		
of period .....	\$ 3,018	\$ 1,939
	=====	=====

### 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.

## Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

### NOTE 6. SUBSEQUENT EVENT

During March 2002, management of the Company committed to a plan to dispose of Westbrooke. Pursuant to this plan of disposition, the Company would sell 100% of the common stock of Westbrooke.

9

On April 8, 2002, the Company signed a definitive agreement for the sale of Westbrooke to Standard Pacific Corp. ("Standard Pacific") for approximately \$41.0 million in cash. This sale was completed on April 15, 2002. An adjustment (either upwards or downwards) to the purchase price may occur within 90 days of the closing date of the sale based on Westbrooke's net income from January 1, 2002 through the closing date. In addition, Standard Pacific satisfied approximately \$54.4 million of Westbrooke's debt that includes approximately \$14.2 million of intercompany liabilities owed to the Company. The Company expects to realize a gain of approximately \$4.9 million that will be reflected in the second quarter, subject to certain adjustments explained above. Accordingly, as of March 31, 2002, management has determined that in accordance with SFAS 144, the criteria to classify the Westbrooke assets as held for sale were met. Results of Westbrooke's operations have been classified as discontinued operations, and prior periods have been restated. Included in income from discontinued operations are revenues of \$38.7 million and \$36.9 million for the three months ended March 31, 2002 and 2001, respectively.

The following major classes of assets and liabilities have been classified as held for sale in the accompanying statements of financial condition (in thousands):

	MARCH 31, 2002	DECEMBER 31, 2001
	-----	-----
Cash .....	\$ 6,960	\$ 15,103
Inventory .....	87,543	90,540
Property, premises and equipment .....	2,415	2,765
Other assets .....	4,075	8,752
	-----	-----
Westbrooke assets held for sale .....	\$ 100,993	\$ 117,160
	=====	=====
Accounts payable and accrued liabilities .....	\$ 6,857	\$ 10,419
Customer deposits .....	7,748	7,671
Consolidated land bank obligations .....	9,882	13,122
Construction and acquisition loans payable .....	30,211	36,166
Other liabilities .....	5,942	4,422
	-----	-----
Westbrooke liabilities associated with assets held for sale .....	\$ 60,640	\$ 71,800
	=====	=====

### 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

## Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

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.

### RESULTS OF OPERATIONS

The Company designs, builds and sells single-family homes, town homes and patio homes in five markets in Texas and Tennessee. At March 31, 2002, the Company operated in 57 communities in its markets and had 486 homes under construction. The Company is also engaged in residential land

10

acquisition and lot development and at March 31, 2002, the Company owned, or had under option contracts, 2,467 lots available for future home building.

The Company's predecessor company was founded in Houston, Texas in 1983. In March 1995, the Company acquired The Adler Companies, Inc., which operated in southern Florida from 1990 until 2000. In January 1998, the Company acquired Westbrooke, which has operated in the Miami, Florida area since 1976. With the acquisition of Westbrooke, the Company wound down the operation of Adler by the end of 2000. The Company completed its initial public offering of common stock in March 1998. On December 15, 1999, TOI purchased 80% of the Company's outstanding common stock from Pacific Realty Group, Inc.

On April 15, 2002, the Company sold all the stock of Westbrooke, its operations in Florida, to Standard Pacific for \$41.0 million in cash, and the repayment by Standard Pacific of \$54.4 million of Westbrooke's debt, including \$14.2 million of intercompany liabilities owed to the Company. The purchase price is subject to adjustment (either upwards or downwards) within 90 days of the closing, based on Westbrooke's net income from January 1, 2002 through the closing date. The following analysis of financial condition and results of operations provided herein do not include the results of operations of Westbrooke which has been classified as held for sale in the accompanying financial statements.

The Company derives its revenues primarily from two sources: (i) sales of homes and (ii) sales of land. The following table sets forth the Company's revenue by source and in total for the periods indicated:

	THREE MONTHS ENDED	
	MARCH 31,	
	2002	2001
	-----	-----
SOURCE		
Sales of homes.....	\$ 83,561	\$ 95,225
Sales of land.....	1,095	675
	-----	-----
Total .....	\$ 84,656	\$ 95,900
	=====	=====

The Company's principal expenses are (i) the cost of sales and (ii)

## Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

selling, general and administrative expenses, or SG&A. Cost of sales reflects the cost of home construction and land purchases (including, in each case, capitalized interest and financing costs). SG&A includes administrative costs, advertising expenses, on-site marketing expenses and commission costs. The following table sets forth the Company's principal expenses by category and in total for the periods indicated:

EXPENSES -----	THREE MONTHS ENDED MARCH 31,	
	2002	2001
Cost of sales.....	\$ 68,571	\$ 75,902
SG&A.....	11,685	12,466
Total.....	\$ 80,256	\$ 88,368

11

The following table sets forth by region and in total for the Company the number of sales contracts executed (net of cancellations), homes closed, homebuilding revenue, average sales price and backlog in units and sales value for the periods indicated:

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
	(Dollars in thousands)	
Region:		
Texas		
Net sales contracts .....	351	380
Homes closed .....	240	300
Homebuilding revenue .....	\$ 69,080	\$ 85,548
Average sales price per homes closed .....	\$ 288	\$ 285
Backlog at end of period, homes .....	413	447
Backlog at end of period, sales value .....	\$ 110,780	\$ 129,861
Mid-Atlantic(1)		
Net sales contracts .....	62	62
Homes closed .....	42	29
Homebuilding revenue .....	\$ 14,481	\$ 9,677
Average sales price per homes closed .....	\$ 345	\$ 334
Backlog at end		

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

	of period, homes .....	57	58
	Backlog at end of		
	period, sales value .....	\$ 19,068	\$ 19,700
Total			
	Net sales contracts .....	413	442
	Homes closed .....	282	329
	Homebuilding revenues .....	\$ 83,561	\$ 95,225
	Average sales price		
	per home closed .....	\$ 296	\$ 289
	Backlog at end of period,		
	homes .....	470	505
	Backlog at end of period,		
	sales value .....	\$ 129,848	\$ 149,561

(1) Consists of the Company's operations in Tennessee and North Carolina.

12

The following table sets forth certain historical operating data for the Company as a percentage of revenues:

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
Cost of sales .....	81.0%	79.1%
Gross profit .....	19.0%	20.9%
SG&A .....	13.8%	13.0%
Income from continuing operations		
before income taxes .....	5.2%	6.1%
Income taxes(1) .....	31.5%	34.1%
Net income .....	4.3%	5.3%

(1) As a percentage of income from continuing operations before income taxes.

THREE MONTHS ENDED MARCH 31, 2002 COMPARED TO THREE MONTHS ENDED MARCH 31, 2001

Revenues decreased by \$11.2 million, or 11.7%, to \$84.7 million in the three months ended March 31, 2002 from \$95.9 million in the three months ended March 31, 2001. This decrease was primarily due to a decrease in the number of homes closed offset in part by an increase in the average selling price of homes closed and an increase in revenues from land sales. The number of homes closed declined by 47 homes, or 14.3%, to 282 in the three months ended March 31, 2002 from 329 in the three months ended March 31, 2001 due to general market conditions. The average selling price of homes closed increased by \$7,000, or 2.4%, to \$296,000 in the three months ended March 31, 2002 from \$289,000 in the three months ended March 31, 2001. Revenue from home sales decreased by \$11.6 million or 12.2%, to \$83.6 million in the three months ended March 31, 2002 from \$95.2 million in the three months ended March 31, 2001, primarily as a result of a decline in homes closed in Texas. Revenue from land sales increased by \$0.4 million, or 62.2%, to \$1.1 million in the three months ended March 31, 2002 from

## Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

\$0.7 million in the three months ended March 31, 2001, primarily as a result of an increase in land sold in Texas.

New net sales contracts decreased by 29 homes, or 6.6%, to 413 homes for the three months ended March 31, 2002 from 442 homes for the three months ended March 31, 2001 due to the general economic conditions in the Company's markets. The dollar amount of new net sales contracts decreased by \$12.6 million, or 9.8%, to \$115.7 million in the three months ended March 31, 2002 from \$128.3 million in the three months ended March 31, 2001.

The Company operated in 57 communities at March 31, 2002 compared to 51 communities at March 31, 2001. As of March 31, 2002, the Company's backlog of sales contracts was 470 homes, a 6.9% decrease from 505 homes at March 31, 2001.

Cost of sales decreased by \$7.3 million, or 9.7%, to \$68.6 million, in the three months ended March 31, 2002 from \$75.9 million in the three months ended March 31, 2001, primarily due to a decrease in the number of homes closed. As a percentage of revenues, cost of sales for the three months ended March 31, 2002 increased to 81.0% from 79.1% in the three months ended March 31, 2001. This increase in cost of sales as a percentage of revenues was due to a shift in the product mix of homes closed to lower margin homes. Cost of home sales decreased by \$7.7 million, or 10.2%, to \$67.6 million in the three months ended March 31, 2002 from \$75.3 million in the three months ended March 31, 2001, primarily due to a decline in homes closed in Texas. Cost of land sales increased by \$0.4 million, or 66.7%, to \$1.0 million in the three months ended March 31, 2002 from \$0.6 million in the three months ended March 31, 2001, primarily due to an increase in land sales in Texas.

13

Equity in earnings from unconsolidated subsidiaries, which are primarily earnings from certain mortgage origination and title operations in which Newmark has an ownership interest of less than 50%, increased by \$0.2 million, or approximately 100%, to \$0.3 million in the three months ended March 31, 2002 from \$0.1 million in the three months ended March 31, 2001 due to increased earnings from certain financial service operations and land development joint ventures.

SG&A decreased by \$0.8 million, or 6.3%, to \$11.7 million in the three months ended March 31, 2002 from \$12.5 million in the three months ended March 31, 2001. As a percentage of revenues, SG&A remained relatively constant, increasing to 13.8% in the three months ended March 31, 2002 from 13.0% in the three months ended March 31, 2001.

Income from continuing operations before income taxes decreased by \$1.5 million, or 24.8%, to \$4.4 million in the three months ended March 31, 2002 from \$5.9 million in the three months ended March 31, 2001, primarily due to a decline in homes closed in Texas.

The Company's provision for income taxes decreased as a percentage of income from continuing operations before taxes to 31.5% in the three months ended March 31, 2002 compared to 34.1% in the three months ended March 31, 2001. The decrease was primarily a result of the timing difference associated with the deductibility of the amortization of goodwill for tax purposes and the result of no amortization of goodwill for the three months ended March 31, 2002 in accordance with Statement of Financial Accounting Standards No. 142.

Net income decreased by \$1.4 million, or 27.5%, to \$3.7 million, in the three months ended March 31, 2002 from \$5.1 million for the three months ended March 31, 2001 primarily due to the decrease in home closings as described above.

## Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

### FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Company's financing needs historically have varied based primarily on its operations, sales volume, inventory levels, inventory turnover and land acquisitions. The Company's cash needs historically have been provided by cash flows from operations, and secured borrowings from financial institutions. At March 31, 2002, the Company had cash and cash equivalents of \$11.9 million. Inventories (including finished homes and construction in progress, developed lots and other land) at March 31, 2002 were \$165.7 million, an increase of \$3.5 million from \$162.2 million at December 31, 2001. This increase results from general growth in the Company's business. The Company's ratio of construction loans payable to total assets was 26.5% and 25.6% at March 31, 2002 and at December 31, 2001, respectively. The ratio of stockholders' equity to total assets increased during the three months to 46.9% at March 31, 2002 from 45.0% at December 31, 2001, primarily due to an increase in equity from earnings.

At March 31, 2002, the Company had lines of credit commitments for construction loans totaling approximately \$150.0 million, of which \$15.1 million was available to draw down.

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 March 31, 2002, the Company had no material commitments for capital expenditures.

14

### SEASONALITY AND QUARTER RESULTS

The homebuilding industry tends to be seasonal, as generally there are more homes sold in the spring and summer months when the weather is milder, 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 parts of the country. 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 school term has an impact on the Company's operations because, in general, homebuyers do not move during the school term. The impact of the school term on the Company's operations is somewhat mitigated by the fact that many of the Company's buyers at the higher end of the Company's price range 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.

### ITEM 3. CHANGES IN INFORMATION ABOUT MARKET RISK

The Company is exposed to market risk primarily related to potential adverse changes in interest rates on its construction loans. The interest rates relative to the Company's construction loans fluctuate with the prime and LIBOR lending rates, both upwards and downwards. The Company does not enter into, or intend to

## Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

enter into, derivative financial instruments for trading or speculative purposes.

### 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. The Company does not believe that the ultimate resolution of these matters will have a material adverse effect on the financial condition or results of operations of the Company.

Subsequent to the Company's press release on March 6, 2001 regarding the possibility of a merger with Engle Holdings Corp ("Engle"), the Company was notified of the filing of two class action suits challenging any transaction between Newmark and Engle as a breach of fiduciary duty. The first case was filed in the District Court, Clark County, Nevada and is entitled: Cause No. A431555; Barry Feldman v. Michael J. Poulos, Yannis Delikanakis, Michael S. Stevens, Constantinos Stengos, Georgios Stengos, Andreas Stengos, James M. Carr, William A. Hasler, Larry D. Horner, Lonnie M. Fedrick, Engle Holdings Corp. and Newmark Homes Corp. The second case was filed in the 80th Judicial District Court of Harris County, Texas and is entitled: Cause No. 2001-14194; and Michael Gormley v. Michael J. Poulos, Yannis Delikanakis, Michael S. Stevens, Constantinos Stengos, Georgios Stengos, Andreas Stengos, James M. Carr, William A. Hasler, Larry D. Horner, Lonnie M. Fedrick, Engle Holdings Corp. and Newmark Homes Corp.

The first class action lawsuit filed in Nevada has been stayed indefinitely pending the resolution of the second class action lawsuit filed in Texas. The Company's obligation to answer the complaint in the second class action lawsuit was deferred until the plaintiffs request in writing that the Company answer the complaint pursuant to an agreement with the plaintiffs.

Subsequent to the filing of the class action lawsuit in Texas, two intervenors filed interventions in the Texas class action: Intervention by Plaintiff Barry Feldman; Cause No. 2001-14194; Michael Gormley, on behalf of himself and all others similarly situated v. Michael J. Poulos, et al; in the 80th Judicial District Court Harris County, Texas, filed March 23, 2001; and Intervention by Plaintiff William F. Ring; Cause

15

No. 2001-14194; Michael Gormley, on behalf of himself and all others similarly situated v. Michael J. Poulos, et al; in the 80th Judicial District Court Harris County, Texas, filed March 29, 2001.

In March 2002, the Company and Engle reached an agreement in principle with representatives for the plaintiffs for the proposed settlement of the class actions, as well as the interventions. Under the terms of the settlement, the Company has agreed to pay the plaintiffs' attorneys' fees and expenses in an amount not to exceed \$350,000 in the aggregate. The settlement is subject to a number of conditions, including the closing of the Merger, providing notice to the class, conducting confirmatory discovery, executing a definitive settlement agreement and obtaining final approval by the court. We believe the settlement will be approved and implemented, but there can be no assurance that will be the case.

#### ITEM 2. CHANGES IN SECURITIES

## Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

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

#### RECENT DEVELOPMENTS

On April 8, 2002, the Company announced that it had entered into a definitive merger agreement with Engle and TOI, the sole stockholder of Engle. Under the terms of the merger agreement, Engle will be merged with and into the Company, which will be the surviving entity following the merger and will change its name to "Technical Olympic USA, Inc." In the merger, each outstanding share of Engle's common stock will be converted into 1,724.08294 shares of the Company's common stock.

The merger is contingent upon certain closing conditions, including the closing of the proposed refinancing of the Company's outstanding debt and Engle's outstanding debt, as well as the assumption of a \$71 million obligation of TOI incurred in connection with its acquisition of Engle Homes, Inc. in November 2000. Pursuant to the proposed refinancing, the Company expects to (1) enter into a \$175 million credit facility, (2) issue \$350 million aggregate principal amount of one or more series of senior and senior subordinated notes in a private placement, (3) repay approximately \$47.1 million of the Company's outstanding debt, (4) repay approximately \$215.8 million of Engle's outstanding debt, and (5) repay the \$71 million obligation of TOI.

On April 9, 2002, the Company filed an information statement with the SEC related to the merger of the Company and Engle. In connection with the merger, the Company proposes to (i) amend its certificate of incorporation to increase the number of authorized shares of common stock from 30,000,000 to 67,000,000; (ii) increase the maximum number of authorized directors on its board from 10 to 15 directors; and, (iii) change the corporate name to "Technical Olympic USA, Inc.". The Company expects the merger to be completed in the second quarter of 2002, but there can be no assurance that the proposed merger will be consummated.

On April 15, 2002, the Company sold all the stock of Westbrooke, its operations in Florida, to Standard Pacific for \$41.0 million in cash and the repayment by Standard Pacific of \$54.4 million of Westbrooke's debt, including \$14.2 million of intercompany liabilities owed to the Company. The purchase price is subject to adjustment (either upwards or downwards) within 90 days of the closing, based on Westbrooke's net income from January 1, 2002 through the closing date. In connection with the merger, the Company sold Westbrooke to eliminate operating redundancies in its South Florida markets and to strengthen its financial position.

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Edgar Filing: NEWMARK HOMES CORP - Form 10-Q

(a) Exhibits.

Exhibit Number	Exhibit
-----	-----
None	

(b) Reports on Form 8-K.

None - No disclosure required.

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.

May 14, 2002

By: /s/ Terry C. White

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

18