FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **2001-08-03** | Period of Report: **2001-06-30**
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FILER

US HOME SYSTEMS INC /TX

CIK:**844789**| IRS No.: **752922239** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10QSB** | Act: **34** | File No.: **000-18291** | Film No.: **1696903**
SIC: **5900** Miscellaneous retail

Mailing Address
750 STATE HIGHWAY 121 BYPASS
STE 170
LEWISVILLE TX 75067

Business Address
750 STATE HIGHWAY 121 BYPASS
SUITE 170
LEWISVILLE TX 75067
2144886300

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

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

FOR THE QUARTER ENDED JUNE 30, 2001
COMMISSION FILE NUMBER 0-18291

U.S. HOME SYSTEMS, INC.
(Name of Small Business Issuer Specified in Its Charter)

Delaware	75-2922239
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
750 State Highway 121 Bypass, Suite 170 Lewisville, Texas	75067
(Address of Principal Executive Offices)	(Zip Code)

(214) 488-6300
(Issuer's Telephone Number, Including Area Code)

Indicate by check mark whether the issuer (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 Corporate Issuers

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

Common Stock, $0.001 Par Value, 4,902,646 shares as of June 30, 2001.

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<TABLE>
<CAPTION>

</TABLE>

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

U.S. Home Systems, Inc.
Consolidated Balance Sheets (unaudited)

<TABLE>
<CAPTION>

<S>	June 30, 2001 <C>	December 31, 2000 <C>
Assets		
Current assets:		
Cash and cash equivalents	$4,308,738	$2,371,347
Accounts receivable, net of allowance for doubtful accounts of $34,990 and $33,000 at June 30, 2001 and December 31, 2000, respectively	1,004,363	774,736
Income tax receivable	392,940	-
Notes receivable	276,667	-
Commission advances	296,548	332,815
Inventory	1,213,433	1,289,485
Prepaid expenses	273,113	180,151
Deferred income taxes	78,091	78,091
Total current assets	7,843,893	5,026,625
Property, plant, and equipment, net	1,730,374	1,777,910
Other assets	201,469	248,487
Total assets	$9,775,736	$7,053,022
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$1,218,254	$ 877,057
Customer deposits	965,447	767,087
Accrued wages, commissions, and bonuses	694,922	612,496
Federal, state, and local taxes payable	143,113	342,133
Current portion of long-term debt	151,974	164,192
Current portion of long-term capital lease obligations	107,505	134,974
Other accrued liabilities	377,108	490,903
Total current liabilities	3,658,323	3,388,842
Long-term debt, net of current portion	284,166	364,191
Long-term capital lease obligations, net of current portion	487,639	539,655
Commitments and contingencies		
Mandatory redeemable preferred stock - $0.01 par value, 40,000 and 48,000 shares issued and outstanding at June 30, 2001 and December 31, 2000, respectively, liquidation value $10 per share	400,000	480,000
Stockholders' equity:		
Preferred stock - $0.01 par value, 100,000 shares authorized, 40,000 and 48,000 mandatory redeemable preferred shares outstanding, respectively	-	-
Preferred stock - $0.001 par value, 1,000,000 shares authorized, no shares outstanding	-	-
Common stock - $0.001 par value, 30,000,000 shares authorized, 4,902,646 shares issued and outstanding at June 30, 2001	4,903	-
Common stock - $0.01 par value, 14,900,000 shares authorized, 833,333 shares issued and outstanding at December 31, 2000	-	8,333
Additional capital	3,679,070	1,836,171
Retained earnings	1,261,635	435,830
Total stockholders' equity	4,945,608	2,280,334
Total liabilities and stockholders' equity	$9,775,736	$7,053,022

</TABLE>

U.S. Home Systems, Inc.
Consolidated Statements of Operations (unaudited)

<TABLE>
<CAPTION>

	Three-months ended June 30	
	2001	2000
<S>	<C>	<C>
Contract revenue and commission fee income	$9,809,113	$9,992,202
Cost of goods sold	4,217,635	4,472,841
Gross profit	5,591,478	5,519,361
Operating expenses:		
Branch operating	333,437	351,774
Sales and marketing	3,438,569	3,236,844
License fees	239,811	185,824
General and administrative	870,753	805,346
Income from operations	708,908	939,573
Other income (expenses), net	18,838	(41,302)
Income before income taxes	727,746	898,271
Income taxes	284,884	75,000
Net income	$ 442,862	$ 823,271
Net income per common share - basic and diluted	$ 0.09	$ 0.97
Weighted average shares	4,902,646	833,333
Pro-forma net income per common share:		
Pro-forma net income per common share - basic and diluted	$ 0.09	$ 0.16
Pro-forma weighted average shares	4,902,646	4,902,646

</TABLE>

See accompanying notes.

U.S. Home Systems, Inc.
Consolidated Statements of Operations
(unaudited)

<TABLE>
<CAPTION>

	Six-months ended June 30	
	2001	2000
<S>	<C>	<C>
Contract revenue and commission fee income	$19,751,574	$19,472,015
Cost of goods sold	8,548,617	8,940,948
Gross profit	11,202,957	10,531,067
Operating expenses:		
Branch operating	725,207	734,163
Sales and marketing	6,993,342	6,510,572
License fees	455,150	334,207
General and administrative	1,657,529	1,495,408
Income from operations	1,371,729	1,456,717
Other income (expenses), net	24,827	(96,716)
Income before income taxes	1,396,556	1,360,001
Income taxes	546,751	80,000

Net income	$ 849,805	$ 1,280,001
Net income per common share - basic and diluted	$ 0.21	$ 1.49
Weighted average shares	3,935,903	833,333
Pro-forma net income per common share:		
Pro-forma net income per common share - basic and diluted	$ 0.17	$ 0.25
Pro-forma weighted average shares	4,902,646	4,902,646

</TABLE>

See accompanying notes.

U.S. Home Systems, Inc.
Consolidated Statement of Stockholders' Equity (unaudited)

<TABLE>
<CAPTION>

	U.S. Home Systems Common Stock		U.S. Remodelers Common Stock		Additional Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 2000	-	-	3,333,333	$ 33,333	$1,811,171	$ 435,830	$2,280,334
Accrued dividends - mandatory redeemable preferred stock	-	-	-	-	-	(24,000)	(24,000)
Capital of U.S. Home at time of merger	3,327,785	3,328	-	-	2,100,578	-	2,103,906
Reverse merger, exchange of shares	16,282,800	16,283	(3,333,333)	(33,333)	17,050	-	-
Reverse stock split	(14,707,939)	(14,708)	-	-	14,708	-	-
Merger costs	-	-	-	-	(264,437)	-	(264,437)
Net income	-	-	-	-	-	849,805	849,805
Balance at June 30, 2001	4,902,646	$ 4,903	-	-	$3,679,070	$1,261,635	$4,945,608

</TABLE>

See accompanying notes.

U.S. Home Systems, Inc.
Consolidated Statements of Cash Flows (unaudited)

<TABLE>
<CAPTION>

	Three-months ended June 30 2001	Three-months ended June 30 2000
<S>	<C>	<C>
Operating Activities		
Net income	$ 442,862	$ 823,271
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	106,163	108,113
Provision for bad debts	15,537	10,000
Changes in operating assets and liabilities:		
Accounts receivable	434,910	85,083
Inventory	(138,623)	7,547
Commission advances and prepaid expenses	59,766	29,959
Accounts payable and customer deposits	84,099	(300,733)
Other assets and liabilities	(172,808)	141,198
Net cash provided by operating activities	831,906	904,438
Investing Activity		
Purchases of property, plant, and equipment	(98,108)	(19,837)
Cash used in investing activity	(98,108)	(19,837)
Financing Activities		
Proceeds from revolving line of credit and long-term borrowings	-	537,456
Principal payments on revolving line of credit, long-term debt, and capital leases	(80,316)	(860,104)

Principal payments on notes payable to related parties	-	(1,090,000)
Dividends on mandatory redeemable preferred stock	(151,303)	(22,944)
Redemption of mandatory redeemable preferred stock	(80,000)	(80,000)
Merger costs	(33,775)	-
Payment of pre-merger liabilities	(1,504)	-
Net cash used in financing activities	(346,898)	(1,515,592)
Net increase (decrease) in cash and cash equivalents	386,900	(630,991)
Cash and cash equivalents at beginning of period	3,921,838	2,646,673
Cash and cash equivalents at end of period	$4,308,738	$ 2,015,682
Supplemental Disclosure of Cash Flow Information		
Interest paid	$ 23,893	$ 72,073
Cash payments of income taxes	$ 555,160	$ 25,000

</TABLE>

See accompanying notes.

U.S. Home Systems, Inc.
Consolidated Statements of Cash Flows (unaudited)

<TABLE>
<CAPTION>

	Six-months ended June 30 2001	2000
<S>	<C>	<C>
Operating Activities		
Net income	$ 849,805	$ 1,280,001
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	209,914	215,974
Provision for bad debts	15,537	10,000
Changes in operating assets and liabilities:		
Accounts receivable	(179,856)	(65,827)
Inventory	76,052	(194,314)
Commission advances and prepaid expenses	(56,695)	(152,329)
Accounts payable and customer deposits	539,557	286,202
Other assets and liabilities	(148,113)	174,113
Net cash provided by operating activities	1,306,201	1,553,820
Investing Activity		
Purchases of property, plant, and equipment	(162,378)	(21,119)
Cash used in investing activity	(162,378)	(21,119)
Financing Activities		
Proceeds from revolving line of credit and long-term borrowings	-	586,163
Principal payments on revolving line of credit, long-term debt, and capital leases	(171,728)	(1,038,262)
Principal payments on notes payable to related parties	-	(1,090,000)
Dividends on mandatory redeemable preferred stock	(153,580)	(51,201)
Redemption of mandatory redeemable preferred stock	(80,000)	(160,000)
Reverse merger, net of cash acquired	1,537,512	-
Merger costs	(183,037)	-
Payment of pre-merger liabilities	(155,599)	-
Net cash provided by (used in) financing activities	793,568	(1,753,300)
Net increase (decrease) in cash and cash equivalents	1,937,391	(220,599)
Cash and cash equivalents at beginning of period	2,371,347	2,236,281
Cash and cash equivalents at end of period	$4,308,738	$ 2,015,682
Supplemental Disclosure of Cash Flow Information		
Interest paid	$ 51,022	$ 153,456
Cash payments of income taxes	$ 783,310	$ 30,356

</TABLE>

See accompanying notes.

Notes to Consolidated Financial Statements

1. Organization and Basis of Presentation

U.S. Home Systems, Inc. (the Company) is engaged, through direct consumer marketing, in the manufacture, design, sale and installation of quality specialty home improvement products. The Company's product lines include kitchen cabinet refacing and countertop products utilized in kitchen remodeling, bathroom refacing and related products utilized in bathroom remodeling, and vinyl replacement windows. The Company operates sales and installation centers in 13 major metropolitan areas in the United States and manufactures its own cabinet refacing, custom countertops, and bathroom cabinetry products in its Virginia-based manufacturing facility. The Company conducts a substantial portion of its direct consumer marketing under the trademarks and service marks "Century 21(TM) Cabinet Refacing" and "Century 21(TM) Home Improvements" under license agreements with TM Acquisition Corp. (TM) and HFS Licensing Inc. (HFS) pursuant to a master license agreement between Century 21 Real Estate Corporation and each of TM and HFS. The Company also conducts its business under the name "FaceliftersSM."

The accompanying interim consolidated financial statements of the Company and its subsidiaries as of June 30, 2001 and for the three-month and six-month periods ending June 30, 2001 and 2000 are unaudited; however, in the opinion of management, these interim financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial position, results of operations and cash flows. These financial statements should be read in conjunction with the consolidated annual financial statements and notes thereto included in the Company's Annual Report on Form-10K-SB for the year ended December 31, 2000.

2. Merger

On February 13, 2001 U.S. Home Systems Inc., formerly known as U.S. Pawn, Inc. ("U.S. Pawn") completed a merger (the "Merger") of a newly created subsidiary of the Company with and into U.S. Remodelers, Inc. ("U.S. Remodelers") with U.S. Remodelers surviving as a wholly owned subsidiary of U.S. Home Systems, Inc. The Merger was subject to, among other conditions, the prior sale of U.S. Pawn's pawnshop operations, which was completed on February 1, 2001. In connection with the Merger, U.S. Pawn reincorporated in Delaware, changed its name to U.S. Home Systems, Inc., and effected a reverse split of its common stock on the basis of one share for each four shares outstanding. Subsequent to the Merger, the Company succeeded to the business of U.S. Remodelers.

The Merger agreement provided for certain indemnifications between the parties. In the event either party becomes obligated to indemnify the other party, and the amount of liability with respect thereto shall have been finally determined, the merger consideration shall be adjusted accordingly, provided, however, that U.S. Remodelers shall be entitled to satisfy the indemnifiable claim by paying the full amount of the claim in cash within ten days of the day on which the amount of liability with respect thereto has been finally determined.

Pursuant to the terms of the Merger, the Company issued 4,045,633 shares (on a post-reverse-stock-split basis) of common stock to the shareholders of U.S. Remodelers, representing approximately 83% of the Company's outstanding common stock following the Merger. After the reverse stock split, the Company had 4,902,646 shares of common stock outstanding.

2. Merger (continued)

Immediately prior to the Merger, U.S. Pawn was a non-operating public shell corporation and accordingly, the Merger was accounted for as a reverse acquisition of U.S. Pawn by U.S. Remodelers, which is similar to a recapitalization. The net assets of U.S. Pawn on the merger closing date were as follows:

<TABLE>

<S>	<C>
Cash	$1,537,512
Accounts receivable	65,308
Income tax receivable	392,940

Notes receivable	300,000
Total assets	$2,295,760
Accounts payable	$ 101,627
Accrued expenses	90,227
Total liabilities	$ 191,854
Net assets	$2,103,906

</TABLE>

3. Inventory

Inventory consisted of the following:

<TABLE>
<CAPTION>

<S>	June 30 2001 <C>	December 31 2000 <C>
Raw materials	$ 741,305	$ 683,456
Work-in-progress	$ 472,128	606,029
	$1,213,433	$1,289,485

</TABLE>

4. Commitments and Contingencies

Revolving Credit Agreement

The Company has an agreement with a financial institution that makes financing available to the Company's customers. The agreement provides the financial institution with the right of first refusal on all of the Company's customer credit applications. The customer executes a Revolving Credit Agreement with the lender and the lender pays the Company on completion of the installation. The Company's risk under the agreement is limited to its normal representations and warranties regarding material and workmanship.

Litigation

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the Company.

4. Commitments and Contingencies (continued)

Employment Agreements

The Company has employment agreements with certain of its officers. The agreements are for a one-year period with automatic one-year renewals unless terminated by the officer or the Company. The agreements generally provide for annual salaries and for salary continuation for a specified number of months under certain circumstances, including a change in control of the Company.

5. Income Taxes

The Company accounts for income taxes under the liability method. Deferred income taxes are provided for temporary differences between the tax bases of assets and liabilities and their bases for financial reporting purposes.

For the three-month and six-month periods ended June 30, 2000, the Company's tax provision included an adjustment to its valuation allowance reflecting the utilization of the Company's NOL carryforward.

6. Capitalization

On February 13, 2001 U.S. Home Systems Inc. completed the Merger (see note

2). In connection with the Merger, the Company reincorporated in Delaware and changed its name to U.S. Home Systems, Inc. After the reincorporation, the Company had authorized 30,000,000 shares of $0.001 par value common stock and 1,000,000 shares of $0.001 par value preferred stock.

On February 15, 2001 the Company effected a reverse split of its common stock on the basis of one share for each four shares outstanding while maintaining 30,000,000 shares of common stock authorized for issuance. The financial statements have been retroactively restated giving effect to the reverse stock split.

On July 6, 2001, the Company's registration statement on Form S-3 covering the resale of the common stock issued to stockholders in the Merger (the "Selling Stockholders") was declared effective by the SEC. The Selling Stockholders may offer and sell the common stock from time to time in one or more transactions, including block transactions, at prevailing market prices or at privately negotiated prices. The Company will not receive any proceeds from the sale of common stock by the Selling Stockholders. General and administrative expense for the current period includes approximately $35,000 of legal and accounting fees related to the filing.

During the six-month period ended June 30, 2001, the Company issued stock options to purchase an aggregate of 469,028 shares of common stock of the Company.

7. Earnings Per Share

The following table sets forth the computation of earnings per share:

	Three-months ended June 30	
	2001	2000
Income applicable to common stockholders:		
Net income	$ 442,862	$ 823,271
Accrued dividends - mandatory redeemable preferred stock	(12,000)	(16,000)
Income applicable to common stockholders	$ 430,862	$ 807,271
Weighted average shares outstanding - basic	4,902,646	833,333
Effect of dilutive securities	2,498	-
Weighted average shares outstanding - diluted	4,905,144	833,333
Earnings per share - basic	$ 0.09	$ 0.97
Earnings per share - diluted	$ 0.09	$ 0.97
Pro-forma weighted average shares	4,902,646	4,902,646
Pro-forma earnings per share	$ 0.09	$ 0.16

	Six-months ended June 30	
	2001	2000
Income applicable to common stockholders:		
Net income	$ 849,805	$1,280,001
Accrued dividends - mandatory redeemable preferred stock	(24,000)	(38,667)
Income applicable to common stockholders	$ 825,805	$1,241,334

Weighted average shares outstanding - basic	3,935,903	833,333
Effect of dilutive securities	14,580	-
Weighted average shares outstanding - diluted	3,950,483	833,333
Earnings per share - basic	$ 0.21	$ 1.49
Earnings per share - diluted	$ 0.21	$ 1.49
Pro-forma weighted average shares	4,902,646	4,902,646
Pro-forma earnings per share	$ 0.17	$ 0.25

</TABLE>

Pro-forma earnings per share gives effect to the Merger as if it occurred at the beginning of the prior year period.

8. New Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations completed after June 30, 2001. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Thus, amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of SFAS No. 142, which is effective for the Company on January 1, 2002. The Company has not evaluated the effect, if any, that the adoption of SFAS No. 141 and SFAS No. 142 will have on the Company's consolidated financial statements.

9. Subsequent Events

On July 9, 2001, the Company completed an acquisition of certain assets of Cabinet Clad, L.L.C. Cabinet Clad is a Detroit, MI based specialty product home improvement business specializing in kitchen remodeling, including replacement kitchen cabinetry, kitchen cabinet refacing, countertops and replacement windows. Cabinet Clad had revenues of approximately $3,500,000 for the year ended December 31, 2000.

The purchase price was $300,000 consisting of a cash payment of $89,030, assumption of debt in the amount of $121,945, and the issuance of 23,740 shares of common stock of the Company. The acquisition will be accounted for as a purchase and accordingly, the purchase price will be allocated to assets acquired based upon their estimated fair values. The excess of the purchase price over the net assets acquired will result in approximately $276,000 in goodwill. In accordance with Financial Accounting Standards Board Statement No. 142, "Goodwill and Other Intangibles", goodwill will not be amortized to expense but will reviewed annually for impairment, or more frequently if impairment indicators arise.

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

This section includes forward-looking statements that reflect management's current views with respect to future operating performance and ongoing cash requirements. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or those anticipated. Factors that could cause or contribute to such differences include, but are not specifically limited to: the Company's ability to generate a sufficient quantity of prospective customer leads; the Company's ability to retain its sales staffing levels; the Company's ability to recruit contractors to complete installations of sales orders; changes in the economic conditions of the various markets served by the Company; and the Company's ability to effectively manage growth and expand its product offerings to include other home improvement products. Readers are cautioned not to place undue reliance on these forward-looking statements.

On February 13, 2001 U.S. Home Systems Inc. (the "Company"), formerly known as U.S. Pawn, Inc. ("U.S. Pawn") completed a merger (the "Merger") of a newly created subsidiary of the Company with and into U.S. Remodelers, Inc. ("U.S. Remodelers") with U.S. Remodelers surviving as a wholly owned subsidiary of U.S. Home Systems, Inc. The Merger was subject to, among other conditions, the prior sale of U.S. Pawn's pawnshop operations which was completed on February 1, 2001. In connection with the Merger, U.S. Pawn reincorporated in Delaware, changed its name to U.S. Home Systems, Inc., and effected a reverse split of its common stock on the basis of one share for each four shares outstanding. The Merger was accounted for at historical cost through a reverse acquisition by U.S. Pawn, which is similar to a recapitalization.

Subsequent to the Merger, the Company succeeded to the business of U.S. Remodelers. In this respect, U.S. Home Systems, Inc. is engaged, through direct consumer marketing, in the manufacture, design, sale and installation of quality specialty home improvement products. The Company's current product lines include kitchen cabinet refacing and countertop products utilized in kitchen remodeling, bathroom refacing and related products utilized in bathroom remodeling, and vinyl replacement windows. The Company operates sales and installation centers in 13 major metropolitan areas in the United States and manufactures its own cabinet refacing, custom countertops, and bathroom cabinetry products in its Virginia-based manufacturing facility. The Company conducts a substantial portion of its direct consumer marketing under the trademarks and service marks "Century 21(TM) Cabinet Refacing" and "Century 21(TM) Home Improvements" under license agreements with TM Acquisition Corp. (TM) and HFS Licensing Inc. (HFS) pursuant to a master license agreement between Century 21 Real Estate Corporation and each of TM and HFS. The Company also conducts its business under the name "FaceliftersSM."

Results of Operations

Comparison of three-month period ended June 30, 2001 to the three-month period ended June 30, 2000

To assist in understanding the Company's operating results, the following table indicates the amount and percentage relationship of various income and expense items included in the Statement of Operations for the three-month period ending June 30, 2001 and 2000 respectively. The business of the Company is characterized by the need to continuously generate prospective customer leads, and in that respect, marketing and selling expenses constitute a substantial portion of the overall expense of the Company.

<TABLE>
<CAPTION>

	Three-months ended June 30, 2001		Three-months ended June 30, 2000	
	$	%	$	%
<S>	<C>	<C>	<C>	<C>
Contract revenues and fee income	$9,809,113	100.0%	$9,992,202	100.0%
Cost of goods sold	4,217,635	43.0	4,472,841	44.8
Gross profit	5,591,478	57.0	5,519,361	55.2
Operating expenses:				
Branch operating	333,437	3.4	351,774	3.5
Sale and marketing	3,438,569	35.1	3,236,844	32.4
License fees	239,811	2.4	185,824	1.9
General and administrative	870,753	8.9	805,346	8.0
Operating income	708,908	7.2	939,573	9.4
Other income (expense), net	18,838	.2	(41,302)	(.4)
Income before income taxes	727,746	7.4	898,271	9.0
Income tax	284,884	2.9	75,000	.8
Net income	$ 442,862	4.5	$ 823,271	8.2
Net income per share	$ 0.09		$ 0.97	
Proforma net income per share	$ 0.09		$ 0.16	

</TABLE>

Income before income taxes was approximately $728,000 and net income was $443,000 for the three-month period ended June 30, 2001, as compared with income before income taxes of $898,000 and net income of $823,000 for the three-month period ended June 30, 2000. Management believes that income before income taxes is a better comparison of Company operations because of a lower income tax expense in the prior year period resulting from a tax-net operating loss carryforward. Proforma net income per share was $0.09 as compared with $0.16 for the three-month period ended June 30, 2001 and 2000, respectively. Proforma net income per share is calculated using the same number of weighted average shares for each period to more accurately reflect the Merger in February 2001.

The Company recognizes revenue upon completion of each home improvement contract. In its customary installation cycle, new sales orders are completed in approximately 55 days from the date of sale.

New sales orders were $9,579,000 in the three-month period ended June 30, 2001, as compared to $9,718,000 in the three-month period ended June 30, 2000. The decrease in new sales orders reflects lower sales efficiencies at the beginning of the current period which management attributes to pricing level changes in certain of the Company's products and the recruiting, hiring and training of new sales representatives. The Company implemented a plan in April 2001 to increase its sales staffing and marketing spending to generate additional customer sales appointments. Concurrently, the Company made pricing level changes to certain of its products. While the Company was successful in increasing its sales staffing and generated more customer sales appointments than in the prior year period, sales efficiencies initially declined and adversely effected the generation of new sales orders. Sales efficiencies improved to their prior year levels by the end of the current period and management believes that the generation of new sales orders for three-month period ending September 30, 2001 will exceed prior year levels for the same period.

Contract revenues on completed orders and fee income were $9,809,000 for the three-month period ended June 30, 2001 as compared to $9,992,000 in the prior year period. The decrease in contract revenues is due to lower new sales orders at the beginning of the current period, and a higher mix of revenues from lower priced products.

Backlog of sales orders to be installed was $5,900,000 at June 30, 2001, as compared to $5,474,000 at December 31, 2000 and $5,970,000 at June 30, 2000. Fee income was $65,000 and $62,000 for the three-month periods ended June 30, 2001 and 2000, respectively.

Gross profit was $5,591,000 or 57.0% of revenues for the three-month period ended June 30, 2001 as compared to $5,519,000 or 55.2% of revenues in the prior year period. The increase in gross profit margin as a percentage of revenue reflects improved materials yields and labor efficiencies in both the Company's manufacturing and installation operations, as well as sales price level changes in certain of the Company products.

Operating expenses were approximately $4,883,000, or 49.8% of revenues in the three-month period ended June 30, 2001 as compared to $4,580,000, or 45.8% of revenues in the prior year period. Operating expenses consist of branch operating expenses, sales and marketing expenses, license fees and general and administrative expenses. The higher operating expenses were primarily due to increased marketing expenditures, license fees due to a higher license fee rate, and increased professional fees related to the company's transition to a public company.

Branch operating expenses were approximately $333,000, or 3.4% of revenues for the three-month period ended June 30, 2001 as compared to $352,000, or 3.5% of revenues in the prior year period. Branch operating expenses, which include costs associated with each of the Company's local branch facilities including rent, telecommunications, branch administration salaries and supplies, are primarily fixed in nature.

The business of the Company is characterized by the need to continuously generate prospective customer leads, and in this respect, marketing and selling expenses constitute a substantial portion of the overall operating expense. The Company's principal marketing activities are conducted through a variety of media sources including television, direct mail, marriage mail, magazines, newspaper inserts and telemarketing. The Company maintains a call-center in Boca Raton, Florida at which it receives in-bound calls in response to its media advertising and makes outbound calls to selected prospects. In its normal operating cycle, marketing costs, which are expensed as incurred, can precede the completion of sales orders by up to three months. However, the securing of sales orders is generally concurrent with marketing expenditures. In this respect, marketing expenses were approximately $1,867,000, or 19.0% of revenues for the three-month period ended June 30, 2001 as compared to $1,664,000, or 16.7% of revenues in the prior year period, and were 19.5% and 17.1% of new sales orders, respectively.

The increase in marketing expenses as a percentage of revenues and new sales orders is principally due to a decline in sales efficiencies early in the current period which management attributes to pricing level changes in certain of the Company's products and the recruiting, hiring and training of additional sales representatives. Sales efficiencies improved to their prior year levels by the end of the period. Marketing expenses increased in dollar terms principally due to additional marketing expenditures.

Sales expenses, which consist primarily of commissions, sales manager salaries, travel and recruiting expenses, were $1,571,000, or 16.0% of revenues in the three-month period ended June 30, 2001 as compared to $1,572,000, or 15.7% in the prior year period. The increase in sales expenses as a percentage of revenues is primarily due to increased sales management salaries coupled with the lower revenues in the period.

License fees were $240,000, or 2.4% of revenues in the in the three-month period ended June 30, 2001 as compared to $186,000, or 1.9% in the prior year period. The increase in license fees is principally due to an increase in the license fee rate which commenced on new sales orders beginning April 1, 2000. Given the Company's normal installation cycle, license fees expense on contracts completed in the prior year period were primarily sold prior to the effective date of the license fee rate increase.

General and administrative expenses were approximately $871,000 or 8.9% of revenues in the three-month period ended June 30, 2001 as compared to $805,000, or 8.0% of revenues in the prior year period. The increase in general and administrative expenses principally reflects increases in insurance, legal, accounting and other professional fees, many of which are associated with higher costs of a public entity. In addition, on July 6, 2001, the Company's registration statement on Form S-3 covering the resale of the common stock issued to stockholders in the Merger (the "Selling Stockholders") was declared effective by the SEC. The

Selling Stockholders may offer and sell the common stock from time to time in one or more transactions, including block transactions, at prevailing market prices or at privately negotiated prices. The Company will not receive any proceeds from the sale of common stock by the Selling Stockholders. General and administrative expense for the current period includes approximately $35,000 of legal and accounting fees related to the filing.

Other income (expense) consists primarily of interest expense offset by interest income. Interest expense declined approximately $48,000 from the prior year period.

Income tax expense was $285,000, or 2.9% of revenues for the three-month period ended June 30, 2001 as compared to $75,000, or .8% of revenues in the prior year period. Income tax expense in 2000 included the expected tax benefit associated with the realization of the Company's net operating loss carryforward.

Comparison of six-month period ended June 30, 2001 to the six-month period ended June 30, 2000

To assist in understanding the Company's operating results, the following table indicates the amount and percentage relationship of various income and expense items included in the Statement of Operations for the six-month period ending June 30, 2001 and 2000 respectively.

<TABLE>
<CAPTION>

	Six-months ended June 30, 2001		Six-months ended June 30, 2000	
	$	%	$	%
<S>	<C>	<C>	<C>	<C>
Contract revenues and fee income	$19,751,574	100.0%	$19,472,015	100.0%
Cost of goods sold	8,548,617	43.3	8,940,948	45.9
Gross profit	11,202,957	56.7	10,531,067	54.1
Operating expenses:				
Branch operating	725,207	3.7	734,163	3.8
Sale and marketing	6,993,342	35.4	6,510,572	33.4
License fees	455,150	2.3	334,207	1.7
General and administrative	1,657,529	8.3	1,495,408	7.7
Operating income	1,371,729	7.0	1,456,717	7.5
Other income (expense), net	24,827	.1	(96,716)	(.5)
Income before income taxes	1,396,556	7.1	1,360,001	7.0
Income tax	546,751	2.8	80,000	.4
Net income	$ 849,805	4.3	$ 1,280,001	6.6
Net income per share	$ 0.21		$ 1.49	

Proforma net income per share	$ 0.17	$ 0.25

</TABLE>

The Company recognizes revenue upon completion of each home improvement contract. In its customary installation cycle, new sales orders are completed in approximately 55 days from the date of sale. New sales orders were $20,053,000 in the six-month period ended June 30, 2001, as compared to $20,101,000 in the six-month period ended June 30, 2000. The decrease in new sales orders is principally the result of lower sales efficiencies at the beginning of the second quarter period, which management attributes to pricing level changes in certain of the Company's products and the recruiting, hiring and training of new sales representatives. Sales efficiencies improved to their prior year levels by the end of the current period and management believes that the generation of new sales orders for three-month ending period September 30, 2001 will exceed prior year levels for the same period.

Contract revenues and fee income were $19,752,000 for the six-month period ended June 30, 2001 as compared to $19,472,000 in the prior year period. The increase in contract revenues is principally due to

improved manufacturing and installation efficiencies which reduced cycle times to complete sales orders, and revenues generated from bathroom remodeling products, a product line which the Company began selling in February 2000. Including bathroom remodeling products, the number of unit installations completed increased 2.5% over the prior year period. Backlog of sales orders to be completed was $5,900,000 at June 30, 2001, as compared to $5,474,000 at December 31, 2000 and $5,970,000 at June 30, 2000. Fee income was $125,000 and $148,000 for the six-month periods ended June 30, 2001 and 2000, respectively.

Gross profit was $11,203,000 or 56.7% of revenues for the six-month period ended June 30, 2001 as compared to $10,531,000 or 54.1% of revenues in the prior year period. The increase in gross profit margin as a percentage of revenues is primarily the result of improved materials yields and labor efficiencies in both manufacturing and installation operations, as well as pricing level changes.

Operating expenses were approximately $9,831,000, or 49.8% of revenues in the six-month period ended June 30, 2001 as compared to $9,074,000, or 46.6% of revenues in the prior year period. Operating expenses consist of branch operating expenses, sales and marketing expenses, license fees and general and administrative expenses. The higher operating expenses were primarily due to increased marketing expenditures, license fees due to a higher license fee rate, and increased professional fees related to the company's transition to a public company.

Branch operating expenses were approximately $725,000, or 3.7% of revenues for the six-month period ended June 30, 2001 as compared to $734,000, or 3.8% of revenues in the prior year period. Branch operating expenses, which include costs associated with each of the Company's local branch facilities including rent, telecommunications, branch administration salaries and supplies, are primarily fixed in nature.

The business of the Company is characterized by the need to continuously generate prospective customer leads, and in this respect, marketing and selling expenses constitute a substantial portion of the overall operating expense. The Company's principal marketing activities are conducted through a variety of media sources including television, direct mail, marriage mail, magazines, newspaper inserts and telemarketing. The Company maintains a call-center in Boca Raton, Florida at which it receives in-bound calls in response to its media advertising and makes outbound calls to selected prospects. In its normal operating cycle, marketing costs, which are expensed as incurred, can precede the completion of sales orders by up to three months. However, the securing of sales orders is generally concurrent with marketing expenditures. In this respect, marketing expenses were approximately $3,748,000, or 19.0% of revenues for the six-month period ended June 30, 2001 as compared to $3,394,000, or 17.4% of revenues in the prior year period, and were 18.7% and 16.9% of new sales orders respectively. The increase in marketing expenses as a percentage of revenues and new sales orders is principally due to a decline in sales efficiencies early in the current quarter period which management attributes to pricing level changes in certain of the Company's products and the training of additional sales representatives. Sales efficiencies improved to their prior year levels by the end of the period. Marketing expenses increased in dollar terms principally due to additional marketing expenditures and a larger mix of leads generated from higher priced media sources.

Sales expenses, which consist primarily of commissions, sales manager salaries, travel and recruiting expenses, were $3,245,000, or 16.4% of revenues in the six-month period ended June 30, 2001 as compared to $3,117,000, or 16.0% in the prior year period. The increase in the dollar amount of sales expenses is due to sales commissions on higher revenues, increases in sales management salaries and higher recruiting and training expenses.

License fees were $455,000, or 2.3% of revenues in the in the six-month period ended June 30, 2001 as compared to $334,000, or 1.7% in the prior year period. The increase in license fees is principally due to an increase in the license fee rate which commenced on new sales orders beginning April 1, 2000. Given the Company's normal installation cycle, license fees expense on contracts completed in the prior year period were primarily sold prior to the effective date of the license fee rate increase.

General and administrative expenses were approximately $1,657,000 or 8.3% of revenues in the six-month period ended June 30, 2001 as compared to $1,495,000, or 7.7% in the prior year period. The increase in general and administrative expenses reflects increases in employee related expenses, including salaries, bonuses and health benefits, as well as higher expenses associated with a public entity consisting primarily of insurance, legal and accounting fees. In addition, on July 6, 2001, the Company's registration statement on Form S-3 covering the resale of the common stock issued to stockholders in the Merger (the "Selling Stockholders") was declared effective by the SEC. The Selling Stockholders may offer and sell the common stock from time to time in one or more transactions, including block transactions, at prevailing market prices or at privately negotiated prices. The Company will not receive any proceeds from the sale of common stock by the Selling Stockholders. General and administrative expense for the current period includes approximately $35,000 of legal and accounting fees related to the filing.

Other income (expense) consists primarily of interest expense offset by interest income. Interest expenses declined approximately $102,000 from the prior year period.

Income tax expense was $547,000 for the six-month period ended June 30, 2001 as compared to $80,000 in the prior year period. Income taxes in 2000 included the expected tax benefit associated with the realization of the Company's net operating loss carryforward.

Proforma net income per share was $0.17 for the six-month period ended June 30, 2001 as compared to $0.25 for the prior year period. Management believes that proforma net income per share is a better comparative than net income per share because proforma net income per share gives effect to the Merger in the prior year and is computed using the same number of weighted shares outstanding.

Liquidity and Capital Resources

The Company has historically financed its liquidity needs through a variety of sources including proceeds from the sale of common and preferred stock, borrowing under bank credit agreements, loans from its stockholders, and cash flows from operations.

Cash generated from operations was $832,000 and $904,000 for the three-month periods ended June 30, 2001 and 2000, respectively, and $1,306,000 and $1,554,000 for the six-month periods ended June 30, 2001 and 2000, respectively,.

In February 2001 the Company completed the Merger. In connection with the Merger, the Company received approximately $1,538,000 in cash and other assets and liabilities, and paid merger expenses of $183,000.

At June 30, 2001 the Company had $4,308,000 in cash, and borrowing capacity under a revolving credit facility with a bank in the amount of $600,000. Based upon current financial resources, including existing lines of credit, the Company believes that it will have sufficient reserves to meet its anticipated working capital needs for the business as currently conducted for the next twelve months. However, the Company anticipates that it will need additional working capital to fund its business strategy including acquisitions. There can be no assurance that additional financing will be available, or if available, that such financing will be on favorable terms. Any such failure to secure additional financing, if needed, could impair the Company's ability to achieve its business strategy. There can be no assurance that the Company will have sufficient funds or successfully achieve its plans to a level that will have a positive effect on its results of operations or financial condition. The ability of the Company to execute its growth strategy is contingent upon sufficient capital as well as other factors, including its ability to further increase consumer awareness of its products by advertising, its ability to consummate acquisitions of complimentary businesses, general economic and industry conditions, its ability to recruit, train and retain a qualified sales staff, and other factors, many of which are beyond the control of the Company. There can be no assurance that the Company's growth strategy will be successful, and there can be no assurance that such lack of success will not have a material adverse effect on the Company's financial condition.

New Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations completed after June 30, 2001. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Thus, amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of SFAS No. 142, which is effective for the Company on January 1, 2002. The Company has not evaluated the effect, if any, that the adoption of SFAS No. 141 and SFAS No. 142 will have on the Company's consolidated financial statements.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the Company.

Item 2. Changes In Securities

On February 13, 2001 U.S. Home Systems Inc., formerly known as U.S. Pawn, Inc. ("U.S. Pawn") completed a merger (the "Merger") of a newly created subsidiary of the Company with and into U.S. Remodelers, Inc. ("U.S. Remodelers") with U.S. Remodelers surviving as a wholly owned subsidiary of U.S. Home Systems, Inc. The Merger was subject to, among other conditions, the prior sale of U.S. Pawn's pawnshop operations, which was completed on February 1, 2001. In connection with the Merger, U.S. Pawn reincorporated in Delaware, changed its name to U.S. Home Systems, Inc., and effected a reverse split of its common stock on the basis of one share for each four shares outstanding. Subsequent to the Merger, the Company succeeded to the business of U.S. Remodelers. After the reincorporation, the Company had authorized 30,000,000 shares of $0.001 par value common stock and 1,000,000 shares of $0.001 par value preferred stock.

Pursuant to the terms of the Merger, the Company issued 4,070,700 shares (on a post-reverse-stock-split basis) of common stock in connection with the Merger. After the Merger and the reverse stock split, the Company had 4,902,646 shares of common stock outstanding.

The Company relied upon the exemption under Section 4.2 of the Securities Act of 1933 in connection with the issuance of the shares of common stock in the Merger.

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

On January 12, 2001, the Company held a special meeting of its shareholders where upon the shareholders voted in favor of (1) the sale of substantially all of the U.S. Pawn's assets to Pawn-One, Inc.; (2) the Merger with U.S. Remodelers, Inc.; (3) the reincorporation of the Company in Delaware and the change of its name to U.S. Home Systems, Inc.; (4) the reverse split the Company's common stock on the basis of one share for each four shares outstanding; (5) the election of five new directors to replace the Company's directors; and (6) and the approval of a new stock option plan for the benefit of the Company's employees, officers, directors and consultants.

These matters have been previously reported to the Commission in the Company's Proxy Statement dated December 18, 2000, and the Company's annual report on Form 10-KSB for the fiscal year ended December 31, 2000 which was filed with the Commission on April 2, 2000, and are incorporated herein by reference.

Item 6. Exhibits and Reports on Form 8K

On February 13, 2001, the Company reported on Form 8K the completion of the Merger, and on April 6, 2001, the Company filed an amendment on Form 8K, which updated the original filing, including applicable financial statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on August 3, 2001 on its behalf by the undersigned, thereto duly authorized.

U.S. HOME SYSTEMS, INC.

By: /s/ Murray H. Gross

Murray H. Gross
President and Chief Executive Officer