

ORIGEN FINANCIAL INC
Form 10-Q
August 15, 2005

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**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.
FORM 10-Q**

**Quarterly report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934
FOR THE QUARTERLY PERIOD ENDED June 30, 2005.**
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 000-50721

Origen Financial, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State of Incorporation)

20-0145649
(I.R.S. Employer Identification No.)

27777 Franklin Rd.
Suite 1700
Southfield, MI
(Address of Principal Executive Offices)

48034
(Zip Code)

Registrant's telephone number, including area code: (248) 746-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of Common Stock, \$.01 par value, outstanding as of July 31, 2005: 25,454,060

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Origen Financial, Inc.
Consolidated Balance Sheet
(In thousands, except share data)
June 30, 2005 and December 31, 2004

	June 30, 2005 (Unaudited)	December 31, 2004
ASSETS		
Assets		
Cash and cash equivalents	\$ 3,428	\$ 9,293
Restricted cash	10,898	9,222
Loans receivable, net of allowance for losses of \$5,729 and \$5,315, respectively	678,197	563,268
Investments	41,863	37,622
Furniture, fixtures and equipment, net	3,230	2,336
Goodwill	32,277	32,277
Other assets	27,998	28,529
Total assets	\$797,891	\$682,547
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Warehouse financing	\$ 82,128	\$107,373
Securitization financing	463,292	328,388
Repurchase agreements	22,073	20,153
Notes payable servicing advances	1,774	
Recourse liability	4,908	6,603
Other liabilities	20,370	16,564
Total liabilities	594,545	479,081
Stockholders Equity		
Preferred stock, \$.01 par value, 10,000,000 shares authorized; 125 shares issued and outstanding at June 30, 2005 and December 31, 2004, respectively	125	125
Common stock, \$.01 stated value, 125,000,000 shares authorized; 25,454,060 and 25,215,400 shares issued and outstanding at June 30, 2005 and December 31, 2004, respectively	254	252
Additional paid-in-capital	220,534	219,121
Accumulated other comprehensive loss	(2,746)	(1,807)
Unearned stock compensation	(3,362)	(2,790)
Distributions in excess of earnings	(11,459)	(11,435)

Total stockholders' equity	203,346	203,466
Total liabilities and stockholders' equity	\$797,891	\$682,547

The accompanying notes are an integral part of these financial statements.

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Origen Financial, Inc.
Consolidated Statement of Earnings (Unaudited)
(In thousands, except share data)
For the periods ended June 30, 2005 and 2004

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Interest Income				
Total interest income	\$ 14,622	\$ 10,034	\$ 27,788	\$ 18,804
Total interest expense	6,681	3,296	12,091	6,315
Net interest income before loan losses	7,941	6,738	15,697	12,489
Provision for credit losses	1,645	1,531	3,675	3,422
Net interest income after loan losses	6,296	5,207	12,022	9,067
Non-Interest Income	3,396	3,014	6,676	5,895
Non-Interest Expenses				
Personnel	5,697	4,915	11,178	9,317
Loan origination and servicing	380	263	794	653
Provision for recourse liability	168		218	
State business taxes	77	73	190	163
Other operating	1,857	1,578	3,798	3,174
Total non-interest expense	8,179	6,829	16,178	13,307
NET INCOME	\$ 1,513	\$ 1,392	\$ 2,520	\$ 1,655
Weighted average common shares outstanding, basic	24,818,544	20,580,155	24,776,139	18,133,264
Weighted average common shares outstanding, diluted	25,325,006	20,891,669	25,174,132	18,393,586
Earnings per common share:				
Basic	\$ 0.06	\$ 0.07	\$ 0.10	\$ 0.09
Diluted	\$ 0.06	\$ 0.07	\$ 0.10	\$ 0.09

The accompanying notes are an integral part of these financial statements.

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Origen Financial, Inc.
Consolidated Statement of Other Comprehensive Income (Loss) (Unaudited)
(In thousands, except share data)
For the periods ended June 30, 2005 and 2004

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Net income	\$ 1,513	\$1,392	\$ 2,520	\$1,655
Other comprehensive income:				
Net unrealized (loss) gain on interest rate swaps	(2,467)	5	(1,098)	20
Less reclassification of adjustment for net realized losses included in net income	91		159	
Comprehensive (loss) income	\$ (863)	\$1,397	\$ 1,581	\$1,675

The accompanying notes are an integral part of these financial statements.

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Origen Financial, Inc.
Consolidated Statement of Cash Flows (Unaudited)
(In thousands, except share data)
For the six months ended June 30

	2005	2004
Cash Flows From Operating Activities		
Net income	\$ 2,520	\$ 1,655
Adjustments to reconcile net income to cash used in operating activities:		
Provision for credit losses and recourse liability	3,893	3,422
Depreciation and amortization	3,932	1,881
Increase in other assets	(1,081)	(4,508)
Increase (decrease) in accounts payable and other liabilities	159	(4,529)
Net cash provided by (used in) operating activities	9,423	(2,079)
Cash Flows From Investing Activities		
Increase in restricted cash	(1,676)	(514)
Purchase of investment securities	(4,240)	(34,270)
Originations and purchases of loans	(158,989)	(121,374)
Principal collections on loans	35,109	30,696
Proceeds from sale of repossessed homes	5,638	4,304
Capital expenditures	(1,301)	(186)
Net cash used in investing activities	(125,459)	(121,344)
Cash Flows From Financing Activities		
Net proceeds from issuance of preferred stock		95
Net proceeds from issuance of common stock		73,107
Dividends paid	(2,545)	(663)
Proceeds from warehouse and securitization financing	304,274	425,388
Repayment of warehouse and securitization financing	(193,332)	(362,853)
Net change in notes payable servicing advances	1,774	(4,037)
Net cash provided by financing activities	110,171	131,037
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,865)	7,614
Cash and cash equivalents, beginning of period	9,293	6,926
Cash and cash equivalents, end of period	\$ 3,428	\$ 14,540

Supplemental disclosures of cash flow information:

Interest paid	\$ 11,206	\$ 6,315
Non cash financing activities:		
Restricted common stock issued as unearned compensation	\$ 2,156	\$ 3,200

The accompanying notes are an integral part of these financial statements.

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Notes to Consolidated Financial Statements (Unaudited)

Note 1 Basis of Presentation

The unaudited consolidated financial statements of Origen Financial, Inc. (the Company), have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Rules and Regulations of the Securities and Exchange Commission (SEC). However, they do not include all of the disclosures necessary for annual financial statements in conformity with US GAAP. The results of operations for the period ended June 30, 2005 are not necessarily indicative of the operating results anticipated for the full year. Accordingly, these unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2004. The preparation of financial statements in conformity with US GAAP also requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

The accompanying consolidated financial statements reflect, in the opinion of management, all adjustments necessary for a fair presentation of the interim financial statements. All such adjustments are of a normal and recurring nature.

Certain prior period amounts have been reclassified to conform to current financial statement presentation.

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Origen Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Note 2 Recent Accounting Pronouncements

Accounting for Share-Based Payments

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment, that addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. Under the FASB's statement, all forms of share-based payments to employees, including employee stock options, must be treated the same as other forms of compensation by recognizing the related cost in the income statement. The expense of the award would generally be measured at fair value at the grant date. Previous accounting guidance requires that the expense relating to so-called fixed plan employee stock options only be disclosed in the footnotes to the financial statements. The Statement eliminates the ability to account for share-based compensation transactions using Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees for options granted after June 15, 2005. On April 14, 2005, the SEC announced it would permit companies to implement SFAS No. 123(R) at the beginning of their next fiscal year. The Company plans to adopt the new rules reflected in SFAS No. 123(R) using the modified-prospective method effective January 1, 2006. Management has determined the impact of adoption of SFAS No. 123(R) will not have a material effect on the Company's financial position or results of operations.

Accounting Changes and Error Corrections

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3. This Statement replaces APB No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. The statement applies to all voluntary changes in accounting principles. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. The statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Management believes that the impact of adoption of SFAS No. 154 will not have a material effect on the Company's financial position or results of operations.

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Origen Financial, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Note 2 Recent Accounting Pronouncements (Continued)

Accounting for Certain Loans or Debt Securities Acquired in a Transfer

In December 2003, under clearance of the FASB, the Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 03-3 Accounting for Certain Loans or Debt Securities Acquired in a Transfer, which addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor s initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality. It includes such loans acquired in a purchase business combination, but does not apply to loans originated by the entity. SOP 03-3 is effective for all loans acquired in fiscal years beginning after December 15, 2004. The adoption of SOP 03-3 on January 1, 2005 did not have a material impact on the Company s financial position or results of operations.

Table of Contents**Origen Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)****Note 3 Per Share Data**

Basic earnings per share (EPS) is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted EPS incorporates the potential dilutive effect of common stock equivalents outstanding on an average basis during the period. Dilutive common shares primarily consist of employee stock options and restricted common stock. The following table presents a reconciliation of basic and diluted EPS for the three months and six months ended June 30, 2005 and 2004:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Numerator:				
Net income	\$ 1,513	\$ 1,392	\$ 2,520	\$ 1,655
Preferred stock dividends	(4)	(4)	(8)	(8)
Net income available to common shareholders	\$ 1,509	\$ 1,388	\$ 2,512	\$ 1,647
Denominator:				
Weighted average common shares for basic EPS	24,818	20,580	24,776	18,133
Effect of dilutive securities:				
Restricted stock awards	507	312	398	261
Weighted average common shares for diluted EPS	25,325	20,892	25,174	18,394
Basic EPS	\$ 0.06	\$ 0.07	\$ 0.10	\$ 0.09
Diluted EPS	\$ 0.06	\$ 0.07	\$ 0.10	\$ 0.09

Table of Contents**Origen Financial, Inc.****Notes to Consolidated Financial Statements (Unaudited)****Note 4 Stock Options**

As allowed under the provisions of SFAS No. 123, Accounting for Stock-Based Compensation, as amended, the Company has chosen to continue to recognize compensation expense using the intrinsic value-based method of valuing stock options prescribed in APB No. 25, Accounting for Stock Issued to Employees and related interpretations. Under the intrinsic value-based method, compensation cost is measured as the amount by which the quoted market price of the Company's stock at the date of grant exceeds the stock option exercise price. All options granted by the Company have been granted at a fixed price not less than the market value of the underlying common stock on the date of grant and, therefore, were not included in compensation expense as allowed by current US GAAP. The value of the restricted stock awards issued by the Company have been reflected in compensation expense.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation for the three months and six months ended June 30, 2005:

	Three Months Ended June 30, 2005	Six Months Ended
Net income available to common shareholders	\$ 1,509	\$ 2,512
Stock option compensation cost	(3)	(6)
Pro forma net income available to common shareholders	\$ 1,506	\$ 2,506
Basic income per share as reported	\$ 0.06	\$ 0.10
Stock option compensation cost		
Pro forma basic income per share	\$ 0.06	\$ 0.10
Diluted income per share as reported	\$ 0.06	\$ 0.10
Stock option compensation cost		
Pro forma diluted income per share	\$ 0.06	\$ 0.10

Compensation cost associated with the Company's unvested restricted stock is measured based on the market price of the stock at the grant date and is expensed over the vesting period. Compensation expense related to restricted stock awards was approximately \$632,000 and \$1,292,000 for the three months and six months ended June 30, 2005.

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Origen Financial, Inc.
Notes to Consolidated Financial Statements (Unaudited)

Note 5 Investments

The Company's investments consisted of three asset backed securities with principal amounts of \$32.0 million, \$6.8 million and \$8.5 million. The securities are collateralized by manufactured housing loans and are classified as held-to-maturity. They have contractual maturity dates of July 28, 2033, December 28, 2033 and December 28, 2033, respectively. During the three and six months ended June 30, 2005, the Company purchased approximately \$2.0 million and \$6.1 million of these securities, respectively. The securities are carried on the Company's balance sheet at an amortized cost of approximately \$41.9 million and \$37.6 million as of June 30, 2005 and December 31, 2004, respectively, which approximates their fair value.

Note 6 Allowance for Credit Losses and Recourse Liability

The allowance for credit losses and related additions and deductions to the allowance were as follows for the three months and six months ended June 30, 2005 and 2004 (in thousands):

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2005	2004	2005	2004
Balance at beginning of period	\$ 5,294	\$ 4,151	\$ 5,315	\$ 3,614
Provision for loan losses	1,645	1,531	3,675	3,422
Transfers from recourse liability	925	1,115	1,913	3,062
Gross chargeoffs	(4,273)	(4,159)	(10,207)	(9,734)
Recoveries	2,138	1,909	5,033	4,183
Balance at end of period	\$ 5,729	\$ 4,547	\$ 5,729	\$ 4,547

The recourse liability and related additions and transfers out of the recourse liability were as follows for the three months and six months ended June 30, 2005 and 2004 (in thousands):

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2005	2004	2005	2004
Balance at beginning of period	\$5,665	\$ 6,793	\$ 6,603	\$ 8,740
Reimbursements for losses per recourse agreements				
Provision for recourse liability	168		218	
Transfers to allowance for credit losses	(925)	(1,115)	(1,913)	(3,062)
Balance at end of period	\$4,908	\$ 5,678	\$ 4,908	\$ 5,678

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Notes to Consoli**